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NO. 22671

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT



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ROBERT E. McDONOUGH, et al.,

Appellants,

-vs-

SNELLING & SNELLING, INC.,

Appellee.

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ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

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# BRIEF FOR APPELLANTS

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This is an interlocutory appeal pursuant to the provisions of 28 USC Section 1292 (a)(1) from an order entered on October 5, 1967, granting a preliminary injunction (95)[1] and the preliminary injunction itself entered on November 21, 1967. (See appellants' Motion to Correct Record regarding omission of preliminary injunction from

* 1
The bare number indicates a reference to the Record on Appeal. A number preceded by the letter "R" designates a reference to the Reporter's Transcript of oral proceedings.

the record). The underlying action was brought by Snelling & Snelling, Inc., a Pennsylvania corporation, against appellants, and other defendants, all citizens and residents of the State of California, for permanent injunctions restraining all defendants from engaging in the employment agency business, for a declaration of the rights of the parties under certain terminated licensing agreements, and for damages in excess of $10,000.00 (12a-1) The District Court's jurisdiction was therefore invoked under 28 USC Section 1332 (a)(1). Appellants, on October 25, 1967, filed a Notice of Appeal (97) and on December 6, 1967, filed a timely Amended Notice of Appeal (138). This Court's jurisdiction accordingly rests upon 28 USC Section 1292 (a)(1).

STATEMENT OF THE CASE

This is a trade secret case in which there is little evidentiary conflict. Primarily, the appeal proceeds on the question of whether the District Court correctly determined and applied California's public policy on covenants restraining competition; and secondarily, on whether findings of trade secrets and irreparable injury are supported by the evidence.

Appellee is a Pennsylvania corporation engaged in licensing and franchising employment agencies (16).

Appellants paid appellee $8,400.00 for a license and franchise to operate an employment agency business in the

[illegible]

City of Riverside, California, and entered into a written license and franchise agreement on February 1, 1965 (20-25). Appellants rescinded the license for fraud, deceit, and failure of consideration on May 19, 1967 (56-58). Appellee terminated the license on July 21, 1967, for appellants' failure to pay overrides (27-29).

As stated, the main action seeks, among other things, a <u>permanent</u> injunction against appellants and other California licensees holding similar agreements, enjoining and restraining them from operating their employment agency offices in competition with appellee in areas and for time periods stated in the agreements.

The matter now before this Court, however, arose out of appellee's request for a <u>preliminary</u> injunction restraining appellants McDonough (of the several defendants in the main action) from opening an employment agency office in the City of San Bernardino, California, or within 35 miles of any other employment agency holding a license and franchise from appellee. (14-15)

The application for the preliminary injunction was based upon three considerations:

1. That the license and franchise agreement contained, in paragraph 8(b) thereof, a restrictive covenant prohibiting appellants from competing with appellee within stated time and area limitations after termination of the agreement. (21-22, 38, 40-42)

2. That appellee furnished trade secrets to appellants and that it was entitled to restrain them from utilizing the secrets in their San Bernardino office. (38-39) Appellee relied upon paragraphs 2(a), 8(a) and 8(b) of the agreement wherein appellants purported to acknowledge that the methods, procedures, and techniques of appellee constituted valuable confidential information which they could not disclose or use after termination of the agreement. (36); the contents of its training manuals (appellee's Exhibit "I" received in evidence at R 11); and the testimony of its Sacramento, California, franchisee, Damon Wheeler, received over appellants' objection, that the trade secrets of appellee consisted of "the scope of the concept covered in the manual, which covers all phases of the business, both from a counselor and managerial point of view", and the "total approach, the philosophy is different" in that Snelling preaches "we place people; we don't fill job openings", and that the usual non-Snelling agency that he was familiar with merely filled job orders. Wheeler further stated that the main theme that he saw through the Snelling approach was that "whoever comes into our office is placeable somewhere, and that we engage in finding those people employment opportunity." (R 95-96)

3. That the Snelling & Snelling name had value as a trade name and that appellants' use of the name "S & S Agency" was an obvious derivation of the Snelling & Snelling

name and its use in San Bernardino constituted an infringement thereon. (39-40) Appellee relied upon the contractual provisions aforesaid and submitted an affidavit from Max Van Tilburg, (the Snelling San Bernardino franchisee) stating that he had received one telephone call from a party who inquired whether another Snelling employment agency was opening up in the City of San Bernardino. (94)

4. To support the element of threatened irreparable injury in connection with its request for the preliminary injunction, appellee brought in the evidence of John McBrearty, its Vice President, who testified, over objection by appellants, that many of its franchised offices were looking at the developments in appellee's application for a preliminary injunction against appellants and that "if Mr. McDonough is allowed to leave the system" he believed that 50 franchisees would attempt to do the same thing at an annual financial loss to appellee of more than $550,000.00 (R 176/8-177/17).

Appellants resisted the application for the preliminary injunction and obtained an order permitting continued operation of the business (46) during the protracted hearing of the Order to Show Cause. Appellants grounded their opposition to the various considerations advanced by appellee upon the following facts and legal principals:

1. The Restrictive Covenant

Appellants' opposition here was based purely upon legal principles. They were:

a. The covenant in restraint of competition and trade is repugnant to California's strong and settled policy as expressed in Section 16600 of the Business and Professions Code, and is for that reason void and unenforceable.

b. The provision in the license agreement, paragraph 17, that Pennsylvania law shall govern the interpretation thereof (23) does not override the dominant consideration that California's public policy must be given controlling effect.

c. In diversity cases, it is settled that federal courts sitting in California must apply California's principles of substantive law, including its rules on choice of law. (These contentions of appellants were presented to the Court at pages 1-7 of their Memorandum of Points and Authorities in Opposition to Preliminary Injunction filed on September 27, 1967. By accident and mistake, these points and authorities were not included in the Designation of Record on Appeal and counsel for appellants have moved this Court for an order correcting that omission; assuming the motion is granted, a record reference to the fact that these principles of law were presented to the trial court will then be supplied. The matters were also brought to the District Court's attention in appellants'

Motion to Amend and Supplement Findings of Fact and Conclusions of Law (114-116).)

2. Trade Secrets

Appellants contended that to be protectable by injunction the information or processes must be actually secret and confidential; that contracting parties can not make secret by agreement information or processes which are not in fact secret; and that matters of public knowledge or of general knowledge in an industry can not be appropriated by one as his secret. Appellants' evidence showed: (a) there were many other employment agency manuals available in the employment agency industry, prepared, published, and distributed by persons other than Snelling that contained the substance and essence of the methods and techniques extolled and sold by appellee (Defendants' Exhibit "B" of October 31, 1967; R 148/16-23); (b) a personnel agency manager with sixteen years experience in the industry in Southern California, twelve of them in a management capacity, (R 72-73) stated there was nothing of unique value among the practices, procedures and policies advocated by appellee and outlined in its manuals (R 75-76); (c) appellant Robert McDonough's extensive contacts with other employment agency operators not connected with the Snelling system disclosed that they all operated in substantially the same manner and utilized the same methods and techniques as Snelling (R 31-33; 149); (d) that contrary to Mr.

Wheeler's testimony describing the central theme of the Snelling methods, its manual recommended doing little or no work on 40-60 percent of the applicants that come in (R 121/12-122/11); (e) the mass exodus of employment counselors from Snelling franchised agencies,in California and elsewhere, all of whom were well versed and schooled in the Snelling method (R 51/5-52/14; 33/4-35/1; 104/6-105/24) at a rate of approximately 50 per year each for McDonough and Wheeler - and at a rate over the country of 700 to 1000 per year in the total Snelling system (R 224/1-22); (f) appellee's failure to police its alleged trade secrets in the case of (1) its own former national supervisors who became familiar with the Snelling method while working in its national headquarters and then entered the industry as agency owners or franchisors, such as Moore, Crawford, Applegate (R 205-210) and Goldberg, alias Davis (R 225-228) one of whom sold and distributed his own employment agency manual nationwide (R 156-160; 226) and (2) its former franchisees that received the Snelling training and learned the Snelling system and then left the organization - estimated to number 225 out of 500 franchises sold (R 225-226), including James Lapp (R 210-211) Edgar Kopp (R 212-214), Wally Sayer (R 214), William McNamara (R 214-215), John Ray Manning (R 215), Les Aarons (R 218-219, and Vern Alexander (R 219-221) - at least one of whom (Lapp R 210-211) was also a franchisor. To halt this mass dissemination of

its trade secrets, appellee brought but four to six law suits designed to discourage this activity which only applied to six of the former franchisees and employers of appellee (R 221/11-223/25).

Appellants further showed that certain techniques prescribed in appellee's manual were in direct conflict with the regulations of the State of California concerning operation of licensed employment agencies and that pursuit of such procedures by appellants and other franchisees in California enmeshed them in diciplinary proceedings with the State (McDonough R 63/25-66/9; Wheeler 108/18-113/7).

3. Infringement of Name.

Appellants proved that the employment agency regulations promulgated by the California State Labor Commissioner precluded and prohibited the use of the Snelling & Snelling designation as a part of the licensed employment agency name of the various franchisees of appellee, and that all advertising done by licensed employment agencies in the State of California, including telephone directory listings, had to be in the licensed name of the agency (R 31; 37-38; 258/260); that this ruling was brought to the attention of appellee's representatives by written notice from the State Labor Commissioner in approximately September of 1964 - prior to the date of the license and franchise agreement between appellee and appellants (R 260/

19-24); and that the State had great difficulty in securing compliance from the Snelling franchisees in California with the name and advertising restrictions aforesaid and t it was obvious to the State Labor Commissioner's office that appellee had not informed their franchisees about this limitation on the use of its name in California. (R 260/19-264/2); That appellee continued its disregard of the regulations and control exercised by the California State Labor Commissioner in this respect, even up to the time of hearing the application for preliminary injunction, was evidenced by the advertisement in TV Guide in October 1967, (Defendants' Exhibit "C") which was clearly in violation of the State regulations (R 264/19-266/14); that Robert Snelling, President of appellee corporation, was aware of some of the difficulties concerning the use of the Snelling & Snelling name in California as early as December 1961 or January 1962 (R 69/9-71/18); that appellant Robert McDonough had not been informed of any such difficulties during his training session at appellee's headquarters (R 58/6-13); and that he encountered the problem for the first time when he applied for his license in California (R 19/2-20/2); that employers in the Riverside and San Bernardino area were not familiar with the Snelling & Snelling name and it was of little value to appellants (R 35/1-37/1; and that appellants then promoted and advertised their own S & S Agency name rather than the

Snelling name (Defendants' Exhibit "A" of September 28, 1967. (R 35/7-37/1) None of this evidence was contradicted in the slightest particular.

4. Irreparable Injury

Appellants showed that in expressing his opinion on the subject of the threatened injury to Snelling, McBrearty was in a state of confusion as to whether it was the opening of the office in San Bernardino by appellants McDonough or their success in ultimately being able to leave the system and continue operating which would produce the horrendous financial loss to appellee that he was forecasting (contrast R 181/5-13 with R 181/19-184/2). Appellee had received no telephone calls or letters, demands or suits, from either a franchisee or an attorney for a franchisee making any such threat; and that the only actual threat of any such injury to appellee's system was made by one individual at a Franchise Owners Association meeting (an association strongly opposed by the Snelling organization - R 238/20-239/14; 242/23-243/5; Defendants' Exhibit "Y") to the effect that he and presumably 49 other franchisees would follow McDonough's lead if he were successful. This communication was made to someone other then the witness and repeated as hearsay to him (R 250/13-252/23). There had been continuing problems between appellee's franchise system and these 50 dissident franchisees over a period of some years (R 252/24-253/19)

although none of said other franchisees had ever suggested anything to the witness personally which would verify or confirm the hearsay report upon which his opinion was based (R 253/20-254/10). The District Court rejected offered evidence tending to establish that causes other than the act of appellants sought to be enjoined were the only possible efficient producting causes of the injury appellee predicted to its system (R 240/7-243/6).

SPECIFICATION OF ERRORS

RELIED ON

1. The District Court failed to enforce California's public policy against the illegal covenant restraining competition in the License and Franchise Agreement.

2. The District Court mistakenly concluded that Pennsylvania law governed the interpretation of the License and Franchise Agreement.

3. The District Court improperly received the speculation of a witness on the issue of irreparable injury over the objections of appellants (R 176-177) and did not permit appellants to cross examine on the subject. (R 249-250).

4. The District Court improperly rejected evidence offered by appellants tending to show that organized franchisee disenchantment of long standing would be the cause of the irreparable injury predicted to appellee's

franchise system (R 240-241).

5. The District Court disregarded established principles of equity in granting the preliminary injunction.

6. The District Court erred in failing to make findings on such relevant and material issues as appellee's deceit and concealment at the time of execution of the license agreement, the failure of consideration for the obligations assumed by appellants therein, the wide dis-seminaton of the Snelling method to persons outside its organization, appellee's failure to police its trade secrets, and other factors relevant to the issuance of the preliminary injunction, although requested to do so by appellants (Paragraphs 2 and 11 of Appellants' Motion to Amend and Supplement Findings of Fact and Conclusions of Law -( 105, 113-114).

## QUESTIONS PRESENTED

1. Whether a covenant against competition, contrary to California public policy, contained in a license agreement for operation of a franchise in California, should be governed by Pennsylvania law as provided in the agreement.

2. Whether, under California law, a system of training and instruction in the operation of an employment agency office can constitute a trade secret where the system is widely known outside the franchise organization, utilizes methods and techniques generally known in the industry,

and few efforts are made to maintain the secrecy of the system.

3. Whether equity should intervene to enforce a personal service contract which is one-sided in its terms, at the request of the party thereto who first breached it, where the essence of the conduct complained of has been carried on for many months and the only proposed variation offers no substantial threat of irreparable injury.

ARGUMENT

I. The Restrictive Covenant in the License and Franchise Agreement is Void and Unenforceable in California and the Preliminary Injunction cannot stand on that Basis.

A. The Court must apply existing California law.

It is settled law that in actions where jurisdiction rests on diversity of citizenship the federal courts look to the law of the state of the forum for the applicable substantive principles of law, including its choice of law rules (Erie R. R. v. Tompkins, 1938, 304 US 64, 58 S Ct 817, 82 L Ed 1188; Klaxon Co. v. Stentor Elec. Mfg. Co., 1941, 313 US 487, 496, 61 S Ct. 1020, 85 L Ed. 1477).

This Court has recently expressed its adherence to these principles (Cummings v. Bullock, 1966, 367 F2nd 182, 183; Curry v. Fred Olsen Line, 1966, 367

F2nd 921, 924.)

In Curry, Judge Duniway aptly posed and provided the clear response to the plea made there, as it was to the District Court in the instant case, that the Federal Courts should seek to expand, modify, or extend California law rather than apply it as they find it, in these words:

> "Appellant asks us to construe the law of 1872 to meet the needs of 1965, to apply a 'bold' approach to its construction, to give the statute a generous construction to achieve results consistent not only with the remedial purpose of the statute but also with the like purpose of the admiralty itself. Whatever we may think our duty to be when we are construing an act of Congress, we think that where a California statute is involved such exortations are not properly addressed to the Courts or to the legislature of California. We do not make California law, even interstitially; we have a more modest function, to attempt to apply it as it is to a particular case." (Emphasis added)

At the District Court, appellants urged upon the Court

the binding and controlling effect on the issues of a 1924 decision of this Court of Appeal (Davis v. Jointless Fire Brick Co., 300 F 1). That decision squarely faced and answered many of the legal issues presented to the Court here, and answered them all with a resounding negative on points embraced by the District Court's decision in this case. As set forth in its conclusion of law 3(b) ( 134-137) the District Court was pursuaded to turn its back upon nearly a century-old strong and settled public policy of California concerning the validity and enforceability of contractual covenants restraining competition in favor of the Court's supposition and speculation that it saw a relaxation of this California policy in California's adoption of the Uniform Commercial Code (permitting parties to agreements to which the code applies to agree they should be bound by the law of a stated jurisdiction) and the decision of an intermediate appellate court in California concerning the propriety of such an agreement in an otherwise usurious contract (Ury v. Jewelers Acceptance Corp. 1964 227 Cal App. 2nd 11; California Commercial Code Section 1105). Since the Commercial Code has absolutely no bearing whatever on covenants in restraint of competition, and since Ury is expressly grounded upon the lack of a strong California policy against usury, the Court's use of these events as foreshadowing a change in the public policy of California

on the subject of restrictive covenants is certainly a concrete example of his succumbing to "exortations (as were) not properly addressed to (it)".

B. California has settled public policy against covenants restraining competition.

This strong and settled public policy against covenants in restraint of competition has been a part of the California statutory law since the adoption of the Civil Code in 1872. With negligible exception it has remained unchanged to the present date. In 1941, after codification of the California Business and Professions Code, the provision was removed from the Civil Code where it appeared as Section 1673, and installed as Section 16600 of the California Business and Professions Code.[2] It reads in full as follows:

> "Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void."

The exceptions to the broad rule of Section 16600 are set forth in the ensuing two sections of the Code dealing with agreements for the sale or transfer

* 2
Subsequent references to Section 16600-16602 shall refer to said Sections of California Business and Professions Code.

of goodwill. These received amendment in 1945 (Stats 1945, C. 671), in 1961 (Stats 1961, Chapter 1091), and in 1963 (Stats 1963, Chapter 597). The amendments in the exception sections added the sale of corporate shares or assets to the concept of the sale of good will in Section 16601 and revised the language pertaining to agreements between retiring and continuing partners set forth in Section 16602. Had there been any desire or intent whatever on the part of the legislature to relax the California policy and extend the exceptions in any areas other then the sale or transfer of good will, the legislature had ample opportunity to consider such a policy expression. No such change or relaxation has been forthcoming from the legislature.

Where neither sale nor transfer of good will is concerned, California's Supreme Court and District Courts of Appeal have uniformly enforced the legislative policy in the following factual frameworks:

1. A provision of a corporate pension plan found in its standard employment contract purporting to cause pension payments to be suspended or terminated in the event a retired employee competed with any phase of the business of his former employer was declared void by California's Supreme Court as repugnant to its settled public policy. (Muggill v. Reuben H. Donnelly Corp., 1965, 62 Cal 2nd, 239, 243.) Chief Justice Traynor

spoke for the Court in these words:

> "...the provision forfeiting plaintiff's pension rights if he works for a competitor restrains him from engaging in a lawful business and is therefore void. *In view of the settled interpretation of Section 16600, cases from other jurisdictions cited by defendant are not persuasive*." (Emphasis supplied)

2. An agreement by the seller of stock in a manufacturing corporation that he would pay the purchasers liquidated damages in the event he competed with the corporation in the states of California, Oregon or Washington during a three year period following the sale, was held void before Section 16601 was broadened to except such transactions. (*Chamberlain* v. *Augustine*, 1916, 172 Cal 285, 287-288). A strict and unyielding interpretation of the California policy was applied in that case. The ultimate result was the amendment of Section 16601 to provide an exception to the rule, not theretofore appearing, where the sale of goodwill took the form of a sale of corporate shares or assets. *Chamberlain* was cited with approval in *Muggill* showing nearly 40 years of consistent statutory construction.

3. An agreement among manufacturers restraining competition in the manufacture and marketing

of dynamite was declared void under the proscription of Section 16600 (then Civil Code Section 1673) as early as 1892 by California's Supreme Court which then regarded the state's public policy on the question as being legislatively declared and settled. (Vulcan Powder Co. v. Hercules Powder Co., 1892, 96 Cal. 510, 513) and the public policy is extended back 73 years from Muggill.

4. A licensing agreement restraining competition for three years after termination of the license was void under the mandate of Section 16600. (Beatty Safeway Scaffold v. Skrable, 1960, 180 Cal App 2nd 650, 656).

5. An employment agreement between a termite inspection and control company and its employee prohibiting post-employment competition was void because of conflict with Section 16600. (Fortna v. Martin, 1958, 158 Cal App 2nd 634).

6. A similar agreement with a janitorial services contractor met the same fate. (Morris v. Harris, 1954, 127 Cal App 2nd 476).

California's policy against these restrictive covenants has heretofore received the firm support of this Court in at least three decisions stretching over forty years of consistent construction. Davis v. Jointless Fire Brick Co., 1924, 300 F. 1; Zajicek v. Koolvent Metal Awning Corp. of America, 1960

283 F2nd 127, 131; Winston Research Corp. v. Minnesota Mining & Mfg. Co., 1965, 350 F2nd 134, 140). These decisions will be examined in greater detail in subsequent portions of this argument.

C. California's public policy overrides the contractual provision that it will be governed by Pennsylvania law.

California follows the general rule that it has the right to refuse to enforce an otherwise valid contract where enforcement is so repugnant to its public policy as to justify the refusal. (11 Cal Jur 2nd, 47-57, 135, Conflict of Laws Sections 8 and 54; Estate of Lathrop, 165 Cal 243, 247-248; Estate of Lund, 26 Cal 2nd 472, 477, 482-487; Thome v. Macken 58 Cal App 2nd 76, 78-81; Biewend v. Biewend, 17 Cal 2nd 108, 113; Western Airlines v. Sobieski, 191 Cal App 2nd 399, 406; 1 Witkin, Summary of California Law 33); and that a contractual provision that it shall be interpreted according to the law of another jurisdiction must yield if enforcement in accordance with the foreign law results in an evasion of its settled public policy or a statutory enactment designed for the protection of its citizens. (11 Cal Jur 2nd 138, Conflict of Laws, Section 55 and cases cited).

Where the law making power speaks on a subject over which it has constitutional power to legislate, public policy is what the statute enacts (Thome v.

Macken, Supra, p. 81)

Appellants find no California state court appellate decision squarely on the point of whether its public policy against covenants in restraint of competition is sufficiently strong to justify it in ignoring a contract proviso that the law of another jurisdiction apply.

It can not be doubted, however, that California has subscribed to this rule in other cases and that its policy against restrictive covenants is as strong and settled, of as long standing and as clearly expressed by both the legislature and its courts as could possibly be imagined.

This Court is not left to wander aimlessly without guiding precedent on this issue. It has, at an earlier date, spoken authoritatively upon it (Davis v. Jointless Fire Brick Co.,1924, 300 F. 1).

The question vital to the decision posed by the Court in that decision was: "Does the statute of California interdict the contract insofar as it restrains Davis from selling a competing product?" The Court reversed the District Court, and answered the question in the affirmative, based upon the provisions of California Civil Code 1673. The written agreement in question was entered into between an Illinois corporation engaged in the production and distribution of heat

resistive bricks and its exclusive sales agent in the California area. After termination, the agent entered into competition with his former principal who sued for injunctive relief. There, as here, the circuit court was faced with a provision in the written agreement that the contract would be construed and interpreted according to the laws of the State of Illinois which apparently permitted such covenants against competition. The court declared this provision in the contract ineffectual to avoid the California statute, the place of performance, the place where defendant resided, and the place where the covenant against competition would be invalid by the law therein prevailing. All of these factors apply equally to the case at bar. The Court's rationale was that such a contract is excepted from the rule of comity, holding that no state is bound to recognize or enforce contracts which the government of the state deem injurious to its own interest, or to the welfare of its own people, or which are in violation of its own laws. This is the universal rule.

This rule and its application to forum public policy against restrictive covenants has found ready acceptance in other federal courts in this country and has been used to resolve factual and legal controversies nearly identical to the one before this Court.

For example, May v. Mulligan (1939 DC

[illegible]

Mich) 36 F Supp. 596, aff'd per curiam (CA6) 117 F 2nd 259, Cert. den. 312 US 691, 85 L Ed 1127, involved a contract by which the defendant employee agreed not to enter within two years after termination of his employment contract into the employ of anyone who might be or was about to become a client of the plaintiff employer. Both parties resided in Illinois at the time the contract was entered into and the contract was made there. Pursuant to a Michigan statute declaring void contracts containing such restrictive covenants against competition the Court concluded the contracts could not be enforced in a federal court sitting in Michigan. The holding was that the public policy of Michigan declared by its legislature was binding not only upon the state courts of Michigan but also upon the federal courts sitting therein, and that the Michigan statutes which had been enacted in 1905 and antedated the contracts by many years obviosuly were by implication included as a provision of the contract.

For another, see Forney Ind. Inc. v. Andre (DC ND 1965) 246 F Supp 334. There, the Federal District Court noted that California and North Dakota statutes dealing with covenants against competing were identical and held, relying strongly on this Court's decision in Davis, that the statutory prohibition was such that a provision in an employment contract between a Colorado

corporation on the one hand and its district manager and salesman in North Dakota on the other that Colorado law would govern their contract would be ineffective and that the restraints on competition were, based on the North Dakota statute, violative of the expressed public policy of the state and therefore were void and unenforceable.

The Davis decision of this Court has received other recent endorsement in Oklahoma (E.S. Miller Laboratories, Inc. v. Griffin )1948, 194 P. 2, 877 and California (Muggill v. Reuben H. Donnelley Corp , 1965 62 Cal 2nd 239, 242, supra; Morris v. Harris, 1954, 127 Cal App 2nd 476). These cases did not involve the interstate issues but the vitality of the state's public policy against covenants restraining competition were squarely at issue in each decision. Each approved the persuasive reasoning in Davis.

For a collection of other state court decisions involving similar covenants and similar public policies, see the annotation in 3 ALR 2nd 522. The judicial decisions everywhere recognize the living force in this type of statutory enactment.

Notwithstanding this unbroken line of authority, appellee persuaded the District Court that Davis would be decided differently under present California law. / (136-137) The contention has no foundation in logic or in law or equity. As stated, the District Court rested its

conclusions on California's recent adoption of the Uniform Commerical Code and an intermediate appellate decision in Ury v. Jewelers Acceptance Corp., supra. The latter case involved a claimed usurious contract. The decision was specifically grounded upon the court's finding that no strong public policy against the particular rate of interest in the contract involved in the suit could be found (Page 21). With respect to usury, the Court referred to a well established rule that a provision in a contract for the payment of interest will be held valid in most states if permitted by the law of the place of contracting, the place of performance, or any other place with which the contract has any substantial connection (Page 20). On the question of public policy in California on usury, the Court stated:

> "That California does not have such a strong public policy against any and all contracts which would be usurious if they were made and to be performed here, appears from the fact that the constitutional prohibition of usury, Section 22, Article XX of the California Constitution, enacted by initiative, exempts from its provisions, banks, building and loan association, industrial loan companies, credit unions, licensed

pawn brokers and personal property brokers, and several other kinds of lenders, and gives the legislature the right to prescribe maximum limits for the exempted lenders. *A strong public policy, based on a settled concept of justice or morality would not be meshed with such alterable rates as the legislature might choose to impose*." (Emphasis supplied)

The California Supreme Court denied a petition for hearing in *Ury* on June 24, 1964. For appellee to suggest that this evidences some relaxation of the settled California public policy against *covenants restraining competition* would be absurd. The Supreme Court's decision in *Muggill* was rendered later,on January 19, 1965, wherein the highly pertinent *Davis* decision on this aspect of California public policy was cited with approval. Such citation by the California Supreme Court in *Muggill* can only constitute an affirmance and a further demonstration of its belief in California's continued vibrant and forceful public policy against contractual provisions which restrain competition and do not involve the sale or transfer of goodwill.

As stated, appellants can find no trend in the California decisional law and certainly there

has been no change in the express legislative policy of the state, suggestive of a relaxation of California's proscription against such covenants. California's policy on this subject is firmly entrenched in its law and this court has had no hesitancy in so finding heretofore in Davis, Zajicek, and Winston, supra.

Appellants realize full well that their legal position before this Court is not fully solved by the determination that California's policy against restrictive covenants remains as steadfast a bulwark as it did in 1924 and as it has since 1872. A determination of this point is necessary herein, however, in order to logically proceed with a resolution of the balance of the issues. If the restrictive covenant were legal and valid in California, the question of the existence of trade secrets would become moot. If as appellants contend, on the other hand, the covenant is void and unenforceable, this illegal provision can be severed, according to Zajicek, Winston and Muggill, supra.

The issue then becomes one of whether or not Snelling sustained its burden of proving that it possessed trade secrets, disclosed them to appellants in confidence, and that appellants were using or threatening to use them in the operation of their San Bernardino employment agency office.

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II. Appellee Possessed No Trade Secrets

A. Trade secrets cannot be made such by private agreement.

The District Court gave weight to appellee's contention that appellants' stipulation in the license agreement that they would treat the contents of the training manuals as confidential and that the various Snelling methods and techniques were of considerable value as evidence tending to establish that this compilation of information constituted a protectable trade secret. (Finding of Fact 15 (R 126) and in its Conclusion of Law 3(a) (R 133). The plain and simple answer to this contention is found in the decisional law of California:

> "The essence of the protected interest is the trade secret or trust. The contract of the parties is not decisive in establishing the interest; the contract can not make a trade secret out of a situation where none exists; the interest itself as developed from the accepted relationship of the parties must be determinative."

<u>State Farm Mutual v. Dempster</u>, (1959) 174 CA2nd 418, 426 (Hearing denied by the Supreme Court)

<u>State Farm</u> dealt with the competing interests

of an insurance company and its agents and states that the general considerations as to what constitute trade secrets include these:

> "Probably because of the strength of these competing values the decisions have turned not alone upon what the parties have written in their contracts but upon the nature of the interests the parties seek to protect: whether these are truly a kind of trade secret or trust, a unique or specialized knowledge gained through the confidential relation, a particular 'trade route' or general and fairly easily obtainable information related to the sales of 'a product or service, public acceptance of which depends almost entirely on the price or superiority of the product or service being offered elsewhere on the market.' (Hays, The California Law of Unfair Competition Takes a Turn - Against the Employer, 41 Cal. L. Rev. 1953, Page 38 at 61: an excellent analysis.)"

B. Matters of public knowledge cannot be trade

secrets.

In a reversal of an injunction issued in favor of an employer and against a former employee enforcing a covenant against competition, California's Supreme Court held that matters of public knowledge or of general knowledge in an industry can not be appropriated by one as his secret. (Aetna Bldg. Maintenance Co. v. West (1952) 39 Cal. 2nd 198, 206). Appellant successfully argued to the Supreme Court in that case that there are no trade secrets in the building maintenance business and that no evidence had been presented to the trial court relative to his use of a trade secret. The Court noted:

> "... Where, as here, superiority of product or service rather than personal relationships or a secret specialty, is the basis for patronage, a knowledge of the customer's requirements is not sufficient reason for an injunction." (Page 205)

Aetna involved some contacts and communications by the employee with former customers of his employer after the date of his termination which the Court felt fell short of active solicitation. It is important to note, however, that in the case here before this court there is no "customer's list" to protect, there are no "peculiar likes

and fancies and other characteristics" of the former employer's customers to be protected. It is superiority of service only and efficient attention to the needs and wants of both applicant and employer contacts that provides for success in the employment agency business.

C. Competing policy considerations

The problem of balancing the opposing policy considerations between employer and employee, principal and agent, licensor and licensee, and others similarly situated, in the use and dissemination, after the relationship is terminated of "business information" developed before and during the relationship is one that the Courts of California have grappled with in a wide number and variety of factual situations.

Should the businessman have complete and exclusive post-employment control over the information he regards as vital to his success? What of the former employee's right to labor for whom and in what fields he chooses, to advance himself in the breadth and depth of his intellectual and business pursuits, utilizing the knowledge and skills derived from his past employment experiences? How does the public interest in fair play, the promotion of morality and justice, and general technological advancement affect the problem?

These and other determinations enter into each adjudicated trade secret case, and each case turns

upon a careful evaluation of how its peculiar facts and circumstances fit into the conflicting policy interests.

As earlier stated by this Court:

> "On the one hand, restrictions upon the use and disclosure of such information limit the employee's employment opportunities, tie him to a particular employer, and weaken his bargaining power with that employer. Such restrictions interfere with the movement to the job in which he may most effectively use his skills. They inhibit an employee from either setting up his own business or from adding his strength to a competitor of his employer, and thus they diminish potential competition. Such restrictions impede the dissemination of ideas and skills throughout industry. The burdens which they impose upon the employee and society increase in proportion to the significance of the employee's accomplishments, and the degree of his specialization.
>
> On the other hand, restrictions upon

an employee's disclosure of information which was developed as a result of the employer's initiative and investment, and which was entrusted to the employee in confidence, are necessary to maintenance of decent standards of morality in the business community. Unless protection is given against unauthorized disclosure of confidential business information by employees, employee-employer relationships will be demoralized; employers will be compelled to limit communication among employees with a consequent loss in efficiency; and business, espionage, deceit, and fraud among employers will be encouraged." (Winston Research Corp v. Minnesota Min. & Mfg. Co., 350 F2nd 134, 137-138)

Winston especially noted an earlier exposition of these competing interests found in Futurecraft Corp v. Clary Corp., 205 Cal App 2nd 279, 286, quoting with approval from Wexler v. Greenberg 399 Pa. 569, 160 A 2nd 430, 435):

"... a problem of accomodating competing policies in our law:

the right of a businessman to be protected against unfair competitions stemming from the usurpation of his trade secrets and the right of an individual to the unhampered pursuit of the occupations and livlihoods for which he is best suited. There are cogent socio-economic arguments in favor of either position. Society as a whole greatly benefits from technological improvements. Without some means of post-employment protection to assure that valuable developments or improvements are exclusively those of the employer, the businessman could not afford to subsidize research or improve current methods. In addition, it must be recognized that modern economic growth and development has pushed the business venture beyond the size of the one-man firm, forcing the businessman to a much greater degree to entrust confidential business information relating to technological development to appropriate employees. While

recognizing the utility in the dispersion of responsibilities in larger firms, the optimum amount of 'entrusting' will not occur unless the risk of loss to the businessman through a breach of trust can be held to a minimum.

On the other hand, any form of post employment restraint reduces the economic mobility of employees and limits their personal freedom to pursue a preferred course of livlihood. The employee's bargaining position is weakened because he is potentially shackled by the acquisition of alleged trade secrets; and thus, paradoxically, he is restrained, because of his increased expertise, from advancing further in the industry in which he is most productive. Moreover, as previously mentioned, society suffers because competition is diminished by slackening the dissemination of ideas, processes and methods."

Winston, Futurecraft and Wexler, supra,

involved the highest degree of scientific and technological knowledge and skills: <u>Winston</u> in the art of precision tape recorders; <u>Futurecraft</u> in valve design development in the volatile United States rocket and guided missile program; <u>Wexler</u>, the sanitations chemical field.

As a review of the adjudicated cases in the trade secret field will disclose, they generally fall into either of two categories (1) those dealing with such scientific and technological knowledge; or (2) those dealing with customer information as exemplified by the "retail delivery route" cases and the "customer list" cases. Appellants have yet to find an instance where the former employer has successfully invoked the equitable protection of the courts to preserve for himself the exclusive right to use a compilation of general business knowledge, however extensive it may be. Indeed, even in the cases involving scientific data and knowledge (<u>Futurecraft</u> and <u>Wexler</u>, for example) and in many of those involving customer information (<u>Davis</u>, <u>May</u>, <u>Forney</u>, <u>Beatty</u>, <u>Fortna</u>, <u>Morris</u>, supra, and others still to be cited) the plea for protection by the employer, principal, or licensor has been denied on appeal.

The competing policy considerations quoted, supra, from <u>Futurecraft</u> and <u>Winston</u> also enter into the customer information cases, lessened, however, by the

lack of public concern for the advancement of scientific knowledge and data. Thus, the California courts have uniformly recognized that:

> "Equity will to the fullest extent protect the property rights of employers in their trade secrets and otherwise, but public policy and natural justice require that equity should also be solicitous for the right inherent in all people, not fettered by negative covenants upon their part to the contrary, to follow any of the common occupations of life. <u>Every individual possesses as form of property, the right to pursue any calling, business or profession he may choose</u>. A former employee has the right to engage in a competitive business for himself and to enter into competition with his former employer, even for the business of those who had formerly been the customers of his former employer, provided such competition is fairly and legally conducted." (emphasis supplied)
>
> (<u>Continental Car-Na-Var Corp. v. Moseley</u>,

1944, 24 Cal 2nd 104, 110)

This decision from California's Supreme Court determined an action brought by an Indiana corporation engaged in manufacturing compounds for finishing, cleaning, and treatment of floors and of tools and appliance for that purpose, for injunctive relief against its former District Manager in Los Angeles. The Supreme Court reversed the judgment granting the injunction despite the appearance of a property right in plaintiff in its list of customers upon the finding that the former employee was selling the manufacturer's products in an open competitive market and the list of customers could not be said to be a trade secret or to constitute confidential information.

In Mathews Paint Co. vs. Seaside Paint Co., 1957, 148 Cal App 2nd 168, in considering a paint company's request for injunctive relief against its former employees who had gone into business themselves in competition with their former employer, the Court expressed certain rules summarized from earlier cases, useful in detecting the trends in California law on protecting trade secrets:

a. "Injunctive relief should be granted only upon convincing proof of a harmful violation of the plaintiff's rights, and the instances in which such rights are violated by an employee's misuse of information

gained during his employment constitute an exceedingly small proportion of the whole." (p. 174)

b. "In all of the California cases in which the injunction has been granted the customers were individuals being ultimate consummers of commodities or individual customers of laundry, bread, ice or milk concerns, and the lists of names and addresses were secret lists;... It would be unusual for the people to patronize more than one laundry man, ice man, or milkman, allowing him to solicit at their doors. If the list against which the plaintiff seeks to enjoin, is not confidential, the plaintiff can have no proprietary interest therein. If the defendants had possessed no knowledge gained through their employment, would not the exercise of just ordinary perspicacity have sent them to these very places to solicit buyers? We think so." (pp 173-174)

c. "The fundamental difference in the decisions, as we read them, is whether in a given case the knowledge gained by

> an employee is secret and confidential. If it is, its use by a former employee will be enjoined. If it is not, its use by a former employee will not be enjoined. Some knowledge gained by an employee is of such a general character that equity will not restrict its later use." (p 171)

Another case emphasizing the principle that the former employee was engaging in a free and open competitive market, the customers in which could rather obviously be determined by just sitting down and thinking about it, is Avocado Sales Co. v. Wyse, 122 Cal App 627, where the court denied injunctive relief to the former employer where the business involved sales of avocados to retailers such as grocery stores, vegetable or fruit stands, clubs, hotels and cafes.

A distinguishing feature in the case here before the Court, as compared to the employer-employee customer list problems in that in those cases, the employee was hired for the specific purpose of making sales to such customers; in many cases the customers "belonged" to the employer prior to the employee's hiring; in other cases, the employee was hired specifically to build up the customer lists to establish a market for the employer's products or services. Here, appellants as franchisees

are building their own business. Appellee has only an incidental interest in such reputation and business contacts as the franchisees develop - that interest being the 7 percent override.

We have no question whatever of appellants seeking to take any advantage by use of customer information of Snelling. Snelling had no customers in the Riverside - San Bernardino area, and provided no customer lists or customer information to appellants at any time. The cases involving technical and scientific data pose most difficult problems to the Court in evaluating the public interest in the advancement of scientific and technical knowledge and how this can best be achieved. Again, this consideration is totally lacking in the present case.

D. What trade secrets are

Perhaps an inordinate amount of space in this brief has been devoted to the determination of what is and what is not considered to be secret and confidential information which can properly be protected as a trade secret in the route list and scientific fields. These have been examined because that is where the litigation has occurred and the trends and principles to be applied are therein pronounced.

Some time has also been spent in demonstrating some things that trade secrets are not - i.e., matters of

general knowledge in an industry, matters of public knowledge, matters sought to be made so by agreement when they are not, in truth and in fact, secret and confidential.

It is time to state what trade secrets are. California has adopted the Restatement's definition. (Restatement of Torts, Volume 4, Section 757, comment b; Futurecraft Corp. v. Clary Corp., 205 Cal App 2nd 279, 289; Winston Research Corp v. Minnesota Min. & Mfg. Co., 350 F 2nd 134, 139-140, Note 1). It reads in pertinent part as quoted in Futurecraft:

> "An exact definition of a trade secret is not possible. Some factors to be considered in determining whether given information is one's trade secret are: (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could

> be properly acquired or duplicated by others."

Additional portions quoted in Winston are:

> "A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. ... It may be a device or process which is clearly anticipated in the prior act as one which is merely a mechanical improvement that a good mechanic can make."

Immediately, it is apparent we do not deal here with any formula, pattern or device. Appellee's claim is directed to a compilation of information which it is alleged gives it and its franchisees an advantage over their competitors. Let us apply the weighing factors of the Restatement to appellee's compilation of information.

The evidence supports but one conclusion in these important particulars:

(1) the information and training given to appellants by appellee is widely known outside appellee's business. McDonough and Still have testified that all employment agencies in California use substantially the

same methods, procedure and policies and that there was nothing new, novel or unique in the Snelling methods. (R 75-76; R 31-33; R 149; Defendants' Exhibit B of October 31, 1967; R 148.) Appellee's witness, Wheeler, whose entire direct examination appears at R 84-90, R 93-99, and R 122-124, said nothing to counter this testimony and no other evidence was produced by appellee on the subject. Wheeler speaks only of the "total concept" of and the appellee's "we place people" "philosophy" as being different (R 95/10-96/17). But, when asked whether any other agencies did the same thing, he said: "I don't know about all agencies. I would say the agency owners that I have met or talked with do not practice their business as we do ... because they have many other complaints about business, and we are doing great." (R 96/24-97/3) That is the total substance of appellee's evidence on the question of whether its compilation of information is known outside its organization.

A cursory comparison of appellee's manuals (Plaintiff's Exhibit 1) with others produced by appellants (Defendants Exhibit B) reveals the similarity of the content. Appellee has no secrets.

Appellee could not and did not counter appellants' additional evidence that hundreds and thousands of former national supervisors of appellee, former franchisees of appellee, and former counselors of the

franchisees, were no longer operating within the Snelling system and were competing with it. (R 33-35; 51-52; 104-105; 205-221)

(2) The information is of necessity widely known by all employees of appellee, by the franchisees and the employees of the franchisees, no effort being made to restrict distribution of the alleged secret information to only a higher level of officers, directors or key employees of appellee. Appellants request for findings on this vital consideration on the issue of whether appellee's compilation of information could properly be classified as a trade secret (113), was ignored by the District Court.

(3) Appellee produced no evidence that it had taken effective measures to guard the secrecy of the information. It has sought to prevent but six former employees or franchisees from utilizing their trade secrets until the present suit. (R 221-223)

(4) While its franchise-selling techniques have produced large sums of money for appellee (R 178), it has not shown that this is due to its compilation of information. It may as well have resulted from the increasing mobility and job-shifting of the American worker. Had the information the value impliedly ascribed to it by appellee, wha would account for the vast percentage of failures and turnovers among the franchisees in its

system (R 210-226)?

(5) Appellee has failed to show any expenditure of effort or money in developing any secret information. It has shown the composition of some training courses and the hiring of three or four national supervisors to assist some 500 franchises sold. A modest concession to the service from headquarters the francnisees needed, as shown by their development of their own organization, The Franchise Owners Association (R 238-239; 242-243).

(6) It can not be said that the information possessed by appellee, whatever it is, can not be acquired or duplicated by others with great ease. Literally hundreds of employment agencies operate throughout the United States. Some are more successful than others, some have franchised some have not. Many have prepared and published manuals which answer the bulk of the questions that the franchisee or operator of the active agency requires in meeting his routine needs in operating his business, (which are available on the open market (R 150/ 7-10). Appellee has totally failed to show that he has any specific information which could not be readily acquired or duplicated, or has not already been acquired or duplicated, by others in the field. Here it is well to return to the provisions of the license agreement and examine those specific aspects of the employment agency

business in which Snelling proposed to provide expertise to appellants. (Paragraph 2(a) of License and Franchise Agreement; 20) (1) interviewing of clients (2) evaluation of clients (3) preparation of job orders (4) telephone usage (5) preparation of advertising (6) record keeping (7) usage of forms (8) selection of office location (9) office layout and furnishing (10) selection of office personnel and (11) office operations.

To examine the subject matter designations is to answer the question - not a subject is mentioned but that any person setting out to perform the described function would arrive essentially at the same method of procedure. Not a single possibility of secretly acquired information, manufacturing processes, equipment, form or style of product is involved in any and all of the subject matter in which Snelling is to provide instruction and training.

In essence, appellee is claiming: "we gave you good and complete training; we have provided you with guidance so you can efficiently operate your business; our guidance and training have been full and complete so you have been able to be successful at your business; therefore, these are trade secrets, therefore protectable, and therefore you can not compete with us upon termination of the franchise agreement." There has been a complete lack of any showing of anything unique, secret, novel,

or a special or peculiar value in the methods, procedures, or techniques of appellee. The evidence is all one way and is to the effect that all of said methods, procedures, and techniques were matters of public knowledge, were widely used in the industry by all other efficient and successful employment agencies. Indeed, it is difficult to imagine even one trade secret which could be found to be involved in the operation of an employment agency The business involves solution of a rather simple problem of finding jobs for applicants who are brought to the agency's doors by advertising or reputation, and finding of employment opportunities by reputation and business contacts, by past service well performed. There is no product to sell, merely service. It is not unlike being an attorney or a consulting engineer. Manifestly, the more talent and the more training and knowledge you have, the more likely you are to be successful. But to say that there are secrets by which one can prosper and another, without possession thereof, will fail, is patently absurd.

Despite this, had Snelling shown by the evidence even one practice, procedure, bit of information, novel or unique idea or concept, and had identified it in the record in this case, appellants would agree that the District Court and this Court would be perfectly justified in requiring appellants to cease and desist from use of

that valuable gem. Instead, Snelling has contented itself with stating that its complete program, the thoroughness of its training, the extensiveness of its manuals, and the interaction of its franchisees, somehow provides a total concept that has acquired a confidential and secret hue not supplied by any of its individual ingredients. One might as well say that the University of Southern California or West Coast Trade School possessed protectable trade secrets in that portion of the world's knowledge they employed in their curriculum sufficient to prevent its teachers and students from leaving and using that knowledge in their subsequent pursuits.

To recognize that a California State Employment Agency exists and publishes a manual comparable in content, if not in length, repetition, instruction in immoral and dishonest practices, as the Snelling manual, is to realize that the training and information necessary to operate an employment agency business is essentially if not totally a matter of public knowledge or of general knowledge in the employment industry.

Testimony of Chadwick as to how he got his start, where he got his information, how he acquired his manuals, and how he operates, (R 154-160) are eloquent proof that Snelling has no compilation of information available in its system which can not be readily acquired from other sources by anyone interested in entering the

employment agency business.

III. Equitable Principles Dictating Denial of Injunctive Relief

A. He Who seeks Equity Must Do Equity

Appellants recognize that inclusion of the illegal covenant against competition in the license agreement is not sufficient, standing alone, to bar injunctive relief to appellee herein, and that this Court has so decided in <u>Zajicek</u> and <u>Winston</u>, supra. When coupled with other evidence of appellee's fraud and deceit the unconscionable character of its license agreement and the partial failure of consideration for appellants' obligations thereunder, the District Court's conclusion that appellee was deserving of the protection of equity was clearly erroneous.

The fraud and deceit referred to consist of appellee's knowledge that its name could not be used in licensing and advertising activities of its franchisees in California and its failure to furnish such information to appellants when it had a clear duty to speak. (R 31, 37-38; 258-260). Relation will hereafter be made to the repeated references to the value of appellee's name in the license agreement.

California law provides that with certain named exceptions, not pertinent here, an injunction can not be granted to prevent the breach of a contract the

performance of which would not be specifically enforced. (California Civil Code Section 3423 (5)) and that an obligation that provides for personal service or requires the employment of another inpersonal service can not be specifically enforced. (California Civil Code Section 3390 (1)(2)).

Of significance in this context is the provision in the license agreement (paragraph 14 (a)) that the agreement constitutes a "personal service contract" which is entered into "in reliance upon and in consideration of the personal qualifications, and representations with respect thereto, of licensee."

There is another well-accepted rule of equity that equity will not enforce an unconscionable contract and that specific and injunctive relief will be denied on that ground alone. (Campbell Soup Co. v. Wentz, 1948, 172 F 2nd 80 (CA3); 4 Pomeroy, Eq. Jurisprudence, Section 1405 a (5th Edition, 1941); 5 Williston, Contracts Section 1425 (Rev. ed. 1937). In Campbell, Court of Appeals for the Third Circuit considered the propriety of injunctive relief in the case of an agreement between the parties for the production of carrots,and stated:

> "We think it is too hard a bargain and too one-sided an agreement to entitle plaintiff to relief in a Court of conscience. The agreement is on a

printed form obviously drawn by skillful draftsmen with the buyers' interests in mind."

A comparable result was achieved by the District of Columbia Court of Appeals in Williams v. Walker - Thomas Furn. Co. (1965) 350 F 2nd 445 where the Court, citing the Campbell Soup case with approval, declined to enforce what it regarded as unconscionable contracts for the purchase of home furnishings and appliances.

So, here, this Court will have no difficulty in recognizing that the license and franchise agreement between the parties was "obviously drawn by skillful draftsmen with the (licensor's)interests in mind." (See the License and Franchise Agreement at 20-25)

a. The second recital provides that licensee desires to obtain a license to use the Snelling name. Appellee's knowledge of the licensing and advertising restrictions placed upon the use of its name in California by the State Labor Law Commissioner, and its failure to communicate this information to appellants should be grounds enough to deny them relief in these proceedings. The contractual provision in question shows that the use of the name was a substantial and material consideration for appellants' entry into the contract.

b. In paragraph 1(a), Snelling grants to

appellants the right to use the registered trade name "Snelling & Snelling", well knowing they were in no position to deliver any such right in the State of California. To see the importance attached to the use of the name by the parties, one need only refer to paragraph 1(c), providing that appellants could use only the name "Snelling & Snelling" in the operation of their business. Consider, also, that Snelling's president contended in a sworn affidavit given in another pending case in California, that "the revenue which the corporation receives from its franchisees is solely in compensation for the use of the 'Snelling' name and for the instruction in the unique Snelling method of operating a personnel consulting and employment agency office" (R 138/10-16)

c. Paragraph 1(d) obviously contemplates the forfeiture by appellants of the entire $8,400.00 franchise fee if they were unable to get their office open and commence operation of their business in Riverside, California, within 90 days from the date of the agreement - an expensive course of training considering that appellants McDonough could have purchased a four year college course, for one of themselves at least, complete with board and room for such a figure.

d. Paragraph 2(a) provides that appellee's instruction, advice and guidance to appellants and their employees would be furnished only as Snelling's judgment

dictated at a place and time to be designated by it. The contract requires in the same paragraph that appellants treat the contents of Snelling's manuals as confidential whether or not there is, in fact, anything novel, unique, or secret therein.

e. Paragraph 2(b)says further instruction or advice desired by the licensee was to be provided at their own expense, payable in advance at Snelling's request.

f. In order to assist Snelling in maintaining an appropriate (to its purposes) check on the business being done by its licensees, paragraphs 4(c) through 4(h) require submission of an impressive body of reporting forms to Snelling. Doubtless the preparation of these forms and Snelling's right to require the licensee to provide copies of their social security reports, state and federal unemployment reports, federal income tax returns, state income, franchise or other tax returns, and such other federal, state, county or city reports as may reasonably be necessary to ascertain the status of licensee's business, and the copy of the annual certified audit, were designed to permit Snelling to readily determine whether the licensee was remitting the proper override.

g. Not content with the payment of $8,400.00 and 7 percent of the gross receipts of the licensee's business forever after, for a two week training course,

the contract then provides for minimum gross receipts which provide an absolute minimum below which the override can not fall for the life of the franchise agreement. Any failure on the licensee's part to produce 7 percent of the minimum figures provided in theis paragraph 5(a) constitutes a default.

h. Paragraph 6(c) requires telephone directory advertising onforms prescribed or approved by Snelling again indicating the solemn agreement and contemplation of the parties that licensees would have the right to use the Snelling & Snelling name.

i. Paragraph 8(b) includes the covenant against competition made illegal in California by Business and Professions Code Section 16600 and includes the Snelling-serving concession that the licensee acknowledges that the name, the reputation, the methods and techniques, the training and instruction, etc. etc., furnished the licensees by Snelling are of "considerable value".

j. Paragraph 8(c) requires similar covenants against competition from each of the licensee's employees and imposes on licensees the duty of fully and effectively enforcing the terms of the agreement at their own expense, and in the event of their failure, permits Snelling to do so at licensees' expense.

k. Paragraph 11 contains the massive powers of Snelling in the event of termination requiring,

in effect, the licensees to turn over every asset, record and even the telephone in its office, to Snelling.

l. Paragraph 11(h) even includes an advance declaration by licensees that they realize any breach of the covenant against competition will cause substantial and irreparable harm to Snelling and sets forth the McDonoughs' consent to the issuance of an injunction putting them out of business. The provision also covers a modest liquidated damages provision of 50 percent of licensees' gross annual receipts for a three year period.

m. Paragraph 12 requires the licensees to waive the right to trial of any action initiated against them by Snelling and to waive all of their homestead and exemption rights. A better example of overreaching, contrary to every concept of fair play and due process in every jurisdiction in the United States of America, is difficult to conceive.

n. Under paragraph 14, licensees have no right to sell assign or sublicense their franchise without Snelling's written consent and on Snelling's terms.

o. Finally, paragraph 14(c) of the agreement provides that, even in death, the rights of licensees, their heirs and personal representatives are minimal, being permitted only 60 days from the date of death within which to locate a purchaser who will pay

Snelling $3,000.00 for undefined "expenses " and hopefully, something to the personal representative covering the value of the business assets and goodwill.

p. The only concession of any sort that it can be said appellants were able to obtain in the negotiation of the agreement was the right to convert to a corporate form, without the payment of fees or expenses to Snelling, provided the corporation was organized and the request made within 6 months of the date of the agreement. (paragraph 20)

In sum total, the Campbell Soup contract was a model of corporate restraint and generosity in comparison to the unbelievably burdensome provisions in the agreement here before the court.

B. Appellee Failed to Show a Meaningful Threat of Irreparable Injury

Appellants' Specification of Error No. 3 and No. 4 relate to the admission of evidence on this subject.

It was incumbent on appellee to show that irreparable injury would result if the injunction were denied and that damage to it if the injunction were denied plainly outweighed any foreseeable harm to appellants Ross-Whitney Corp. vs. Smith, Kline & French Labs., CA 9 1953, 207 F 2nd 190).

The evidence was that long-standing dissension existed between appellee and a group of fifty of its

franchisees which pre-dated the relationship of appellee and the McDonoughs (R 252-253). Inquiry into the nature and extent of this dissension was barred by the District Court, although plainly offered to show that the injury forecast by appellee's witness would come from this sector and that conduct of the McDonough's would have no causal relationship thereto. (R 240-243)

The District Court's ruling on this offered testimony came during hearing of appellants' motions for supersedeas and to stay the preliminary injunction pending appeal. It must be borne in mind, however that McBrearty did not appear as a witness until the hearing of these motions and that, until he appeared, the record was completely devoid of any evidence to show an imminent threat of harm to appellee. If McBrearty's testimony concerning the threat of harm was admissible at all (and it was received over appellants' objection - R 176-177), the District Court erred in restricting appellants' in cross examining McBrearty on the basis for his opinion (R 249-250), and their efforts to show other causes for the threatened disintegration of the franchise system (R 240-243).

Another factor which was clearly of significance in balancing the equities in deciding whether or not injunctive relief should be granted, was disregarded by the District Court.

Considering the extent of appellants' business activities in San Bernardino trade area from their Riverside office (47-48; 53; R 27-30) all of which preceded by many months appellee's application for injunctive relief pendente lite, the status quo between the parties would have been better maintained by permitting the continuation of the San Bernardino office. Appellants proved, without contradictory evidence being received or offered, that their activities in the San Bernardino area were undertaken with the advice and consent of appellee (R 30), that one-half their advertising was expended there and one-half their business came from that area (R 28-30).

On equitable principles alone, the Court of Appeals for the Tenth Circuit denied injunctive relief in a comparable dispute between a franchisor and one of its franchisees in Goldammer v. Fay (1964) 326 F 2nd 268. There plaintiff was the owner of certain rights involved in the Dairy Queen franchise which, in exchange for fixed payments from the defendant franchisee permitted him the use of the franchise name, sign, ice cream formulae mix, etc. The franchise was terminated by the plaintiff for defendant's failure to make the payments and plaintiff sought to enforce the two year covenant against competition in the franchise agreement when defendant remained in business at the same location in Colorado Springs,

Colorado, but changed his sign and the name of his business. Although such restrictive covenants against competition are valid in Colorado (as seen in the Forney case, supra,)both the trial court and appellate court denied plaintiff the injunctive relief sought on the premise that no evidence of irreparable injury had been shown, the Court relying on the rule that injunctive relief is a drastic remedy to be exercised with caution and should be granted only in cases where the necessity therefore is clearly established (Citing Colorado authority for that proposition).

CONCLUSION

To summarize briefly, appellants McDonough contend the District Court failed to properly interpret and apply California's settled public policy against covenants in restraint of competition, erroneously concluded, under tests prescribed by California judicial decisions, that appellee had carried its burden of proving its training, manuals, and methods were in fact trade secrets, and ignored established principles of equity in giving appellee injunctive relief herein.

Appellants respectfully urge this Court to reverse the Order Granting the Preliminary Injunction and to dissolve the Preliminary Injunction itself.

HENNIGAN & BUTTERWICK

By [signature]
Attorneys for Appellants

## APPENDIX

## TABLE OF EXHIBITS

CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19, and 39 of the United States Court of Appeals for the Ninth Cirucit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

J. D. BUTTERWICK
ATTORNEY

CERTIFICATE OF SERVICE BY MAIL

I, J. D. BUTTERWICK, certify that I am the attorney for appellants in this action, and that I served three copies of the above Appellants Brief by mail on the attorney for appellee.

Dated: May 20, 1968.

J. D. BUTTERWICK

No. 22671



In the

# United States Court of Appeals

*For the Ninth Circuit*

---

ROBERT E. McDONOUGH, *et al.*,

*Appellants,*

vs.

SNELLING & SNELLING, INC.,

*Respondent.*

---

On Appeal from the United States District Court for the Central District of California



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## RESPONDENT'S BRIEF

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## RESPONDENT'S BRIEF

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### JURISDICTION

This action was brought by Snelling & Snelling, Inc., a Pennsylvania corporation, against Appellants and other Defendants, all citizens and residents of the State of California, for injunctive and declaratory relief and for damages in excess of $10,000.00. The District Court's jurisdiction was therefore invoked under 28 U.S.C.A. §1332 (a)(1). Appellants make this interlocutory appeal pur-

suant to the provisions of 28 U.S.C.A. §1292 (a)(1) from a preliminary injunction entered on November 21, 1967.

## STATEMENT

*The Snelling System*

Respondent is the successor to a partnership founded in 1951 by Louis R. Snelling, Jr., and his wife, Gwendolyn, to operate a single personnel agency in Philadelphia, Pennsylvania (Pl. Ex. 1, *Operational Manual — Manager's Operation,* hereinafter "MM", at 19). Today, Respondent still operates a personnel agency in Philadelphia, but has some two hundred seventy-five franchisees operating over three hundred twenty-five offices throughout the United States (II R. 255: 10-23).

A new Snelling franchisee receives training at Respondent's headquarters in Pennsylvania and three basic manuals which contain information and guidelines regarding the "Snelling system" for operation of a personnel agency — information and guidelines which Respondent has developed since 1951 and revises from time to time (II R. 88:3-89:18; 212:12-213:5; MM:II). The three manuals are designed to guide counselors, receptionists, and the franchisee-manager. In the Manager's Manual, the franchisee is given detailed instructions regarding the establishment, staffing and operation of an agency, with particular emphasis on: 1) techniques which will enable counselors to place all *qualified* applicants instead of filling only existing "job orders"; and, 2) a detailed, analytical system of record keeping and reports which will enable both the franchisee-manager and Respondent to detect strengths and weaknesses in his business (MM: 172-176; 219-251; II R. 95:19-96:15).

Respondent assists the franchisee in selecting a location within his franchised area (MM: 54-61). After he has selected a location and hired an initial group of counselors, one of Respondent's "National Supervisors" trains the

counselors in non-managerial aspects of the Snelling system (II R. 88:22-89:13). Thereafter, National Supervisors continue to guide the progress of each office through periodic visits (II R. 105:25-107:9; 170:25-171:14).

Each franchisee is required to make detailed monthly reports to Respondent in Pennsylvania (MM: 241-250). From these, the Pennsylvania office attempts to detect, analyze, and — hopefully — solve problems in the reporting office and problems which are common throughout the system (MM 241-244; II R: 163:8-168:3).

In order to provide training in new techniques and solve problems pointed out in franchisees' reports, Respondent conducts periodic "regional seminars" in various parts of the country. Such seminars have been held in California during the past four years, each dealing with solutions to specific problems which have been developed by Respondent's head office in Pennsylvania (II R. 163:8-168:3). Separate regional conferences are also held to train or retrain counselors (II R. 169:8-170:24).

Franchisees receive advertising material prepared by Respondent (MM: 83, 153-156) and the benefit of Respondent's national advertising (II R. 30:18-24; 264:14-266:14). Although limitations which California law places upon an employment agency's use of a franchisor's name (II R. 259:13-260:18) lessen the effectiveness of advertising (II R. 237:16-238:7), there is no evidence to indicate that it lacks substantial value.

The Snelling system has had its share of growing pains and has not been uniformly successful. During the years that it grew from a single agency to a nationwide organization, Snelling & Snelling suffered some attrition. (II R. 255:6-256:6). Of roughly five hundred businessmen who have held franchises, perhaps fifteen percent have left the business because they were unsuccessful (II R. 230:1-24).

Respondent has also been troubled by demands of some very successful franchisees who have come to resent the

contractual requirement that they pay seven percent of their gross receipts to the head office in Pennsylvania (II R. 172:11-173:8). Snelling's Vice President, who had just returned from addressing a meeting of the International Franchise Association, testified that many successful franchisors face the same problem (II R. 171:19 173:8). In Snelling's case, some franchisees have banded together to form the Franchise Owners' Association (II R. 179:10-16; 238:20-246:11), while some have made concerted attempts to renegotiate their agreements with Snelling (II R. 247:21-249:11). Prominent among the rebels is Appellant, Robert E. McDonough.

*Appellants' Association with Snelling & Snelling*

Robert E. McDonough was an experienced businessman prior to his affiliation with Respondent, having served as vice president in charge of sales for a regional oil company which had outlets in seven Southern states (II R. 7:18-8:1; 50:7-51:4). When he became interested in purchasing a Snelling franchise in early 1965, McDonough acted in a businesslike fashion and had the franchise agreement reviewed by his attorney in Mobile, Alabama (II R. 8:11-8:20). Apparently finding no objection to the terms of that agreement, he attended Respondent's training course in Pennsylvania for two weeks and executed a contract to purchase the Riverside franchise (II R. 8:21-9:8; 168:6-8; I R. 87-92).*

On April 15, 1965, McDonough opened his office in Riverside as the "S & S Agency", which he identified in its advertising as "a member of Snelling & Snelling" (II R. 27:24- 28:1; 37:24-38:6). Because of a ruling of the California Labor Commissioner which granted earlier franchisees a preemptive right to use Snelling & Snelling in their firm name, he adopted the "S & S" designation (II R. 19:11-23; 258:21-260:18). In doing so, he complied with

*The "Riverside franchise" did not prohibit McDonough from soliciting business outside of that city so long as his office remained there. Far from giving its franchisees "closed territories," Snelling encouraged advertising outside of the franchised city so long as a single base of operations was maintained (II R. 30:6-17).

paragraph 1(c) of the license agreement which provides that the "Licensee shall use only the name Snelling & Snelling and Licensee shall identify himself as a member of the Snelling and Snelling system, *unless state law requires other or additional identification.*" (I R. 87).

During the year 1965, gross receipts from the new Riverside agency averaged $5,000.00 per month (II R. 22:4-20; Pl. Ex. 2). Of this amount, at least 15%-18%, or $750.00-$900.00 per month, represented net profit after payment of expenses (II R. 13:4-18). Throughout this period, McDonough rendered regular monthly reports and paid 7% of his gross receipts to Respondent in Pennsylvania (II R. 22:4-20; Pl. Ex. 2). He sought to promote the Snelling name and identified "S & S" as a member of the Snelling system in both his newspaper advertising and his personal contacts with employers and job applicants (II R. 35:7-38:6).

No one disputes the fact that McDonough's business prospered, so that he could report taxable income of $16,000-$17,000 for 1966, his first full year of operations (II R. 11:19-12:18). Admittedly, this income was somewhat higher than it might otherwise have been because he ceased paying Respondent monthly overrides in January of 1966 (I R. 27-29).

Despite the fact that he had ceased to pay overrides in January of 1966, McDonough continued to identify his agency as a member of Snelling & Snelling in Riverside advertising until May of 1967 (II R. 37:7-38:1). He also continued to attend regional meetings held by Respondent (II R. 168:9-169:7).

The first open break between Appellants and Snelling occurred on May 10, 1967, when Snelling's Assistant Secretary, Lawrence T. Knier, served notice that his franchise would be cancelled unless past due overrides were paid (I. R. 26). In response, Appellants, acting through their counsel, "rescinded" their agreement on May 19, saying, in part:

"It is obvious that in California at least, your corporation is not in a position to offer the same valuable consideration to licensees that it can in some other states. Under these circumstances, it would seem logical that a substantially reduced franchise fee and substantially reduced override percentage should govern your License Agreements in California as contrasted with such other states. Our clients would not be adverse to negotiating such a License Agreement with your corporation which would incorporate a fair and reasonable fixed license fee and fair and reasonable percentage of income payment. Neither of the payment provisions of the present License Agreement are fair and reasonable in view of your inability to deliver that which you are committed to deliver to the licensees under the written agreement." (I R. 57).

The "recission" letter of May 19 was the first round in a series of negotiations which are described in McDonough's counsel's reply to Snelling's final termination letter, which said, in part:

"August 2, 1967

Voegelin, Barton, Harris & Callister
Attorneys at Law
606 South Olive Street
Los Angeles, California 90014

Re: McDonough v. Snelling & Snelling

Your File No. 5846

Gentlemen:

We have for reply your letter of July 21, 1967, addressed to Mr. Robert E. McDonough. We presume your reference in the address to Snelling & Snelling is an oversight since, as we understand you represent Snelling & Snelling in California, you are surely aware

that none of the franchisees have ever been able to operate under that name in California.

You further suggest in your letter that Mr. McDonough failed to respond to the letter of your client dated May 10, 1967. Perhaps your client has failed to keep you informed of developments since that date. Under date of May 19, 1967, on behalf of Mr. and Mrs. McDonough we addressed a Notice of Recission to your client which was received by it on May 23, 1967. A copy is enclosed for your information and file.

Thereafter, we have engaged in five or six long distance telephone calls with Mr. Paul Welsh of the Philadelphia law firm representing Snelling & Snelling. Our discussions have centered upon the possibilities of finding a mutually satisfactory area within which the parties could continue their contractual relationship on a substantially modified basis. The last such telephone call was on July 11, 1967, from Mr. Welsh . . . .

We feel the salutary provisions of Business and Profession's Code Sections 16600-16602, invalidating contracts in restraint of trade, protect our clients from the provisions of the contract stating that their operation of an employment agency business in Riverside, California, can be enjoined, and that these protective statutes extend to the contractual provisions incident thereto, such as the turning over of books and records, the turn over of lessee's premises and telephone number, etc. . . .

As set forth in that letter, we feel that Mr. and Mrs. McDonough were defrauded by Snelling & Snelling, Inc. in that many of these unfavorable aspects of the franchises as they pertain to the State of California were not made known to the McDonoughs when the franchise was purchased. Similarly, the inability of Snelling & Snelling to deliver these things of value

has resulted in at least a partial failure of consideration for the sums of money agreed to be paid by the McDonoughs under the license agreement. It is our opinion that the relief the McDonoughs can anticipate would be twofold: First, a reduction fee and the percentage override because of the partial failure of consideration; and, Second, the obtaining of punitive damages against Snelling & Snelling, Inc. for the fraudulent concealment of the true situation in California.

Nevertheless, the McDonoughs are reasonable people, would prefer to avoid litigation, and will meet Snelling & Snelling, Inc. half way in an effort to arrive at a reasonable disposition of this problem. We are authorized to advance on their behalf the following settlement offer:

1. The license agreement be considered terminated or rescinded and each party will release the other from any and all claims arising therefrom;

2. The McDonoughs will furnish an audited report of their gross business;

3. Snelling & Snelling, Inc. would credit back to the McDonoughs one-half of the $8,400.00 franchise fee paid;

4. The McDonoughs would be debited with a 3½ percent of their gross receipts from the commencement of their business through May 19, 1967, less any amounts previously paid;

5. McDonoughs will return to Snelling & Snelling, Inc. the training or operational manuals furnished and will agree to provide copies of those business records in their possession that Snelling & Snelling desire;

6. The McDonoughs would continue to operate at the same location and using the same telephone number and Snelling & Snelling would be free to sell the Riverside franchise to any new purchaser if desired.

We will appreciate receiving any comments or response from you or your clients to this offer at your early convenience.

Very truly yours,

HENNIGAN & BUTTERWICK

By J. D. Butterwick'' (I R. 60-62).

No mention was made of a San Bernardino office which would compete with Snelling's existing franchisees.

After the breakdown of settlement negotiations, Respondent filed a Complaint against Appellants for recission, injunctive and declaratory relief and damages (I R. 2-11). Before that Complaint had been served, Robert E. McDonough advised Anne Van Tilburg, owner and operator of the Van Agency, Snelling's franchisee in San Bernardino, that he planned to open an ''S & S'' agency in San Bernardino (I R. 30). McDonough's own testimony indicates that he had been training counselors for a San Bernardino office for three or four months (II R. 41:15-25; 282:15-285:1) — or during much of the period when settlement discussions were in progress.

Upon being advised of his intentions, Respondent filed a First Amended Complaint and Ex Parte Application for Order to Show Cause Re: Preliminary Injunction and Ex Parte Application for Temporary Restraining Order (I R. 12-A-34). An Order to Show Cause and Temporary Restraining Order was entered on September 20, 1967, and served on September 21, restraining Respondents ''from opening an employment agency office in the City of San Bernardino, or within thirty-five (35) miles of the City

of Riverside, State of California, or within thirty-five (35) miles of any other employment agency which is a duly enfranchised member of plaintiff's employment agency system'' pending disposition of the Order to Show Cause. Hearing on that Order was set for September 27, 1967 (I R. 43-45).

*The Hearings Below*

This Appeal arises out of hearings which were held on September 27 and 28, October 4 and 21, and November 17, 1967 and the relevant findings and orders entered by the District Court. The hearing was originally concerned with the narrow legal question of enforceability of Respondent's restrictive covenant (II R. 10:9-11:16), but was broadened to include the question of whether Snelling possesses protectable trade secrets when Appellant sought to establish that no such secrets exist (II R. 52:15-56:3: 74:20-76:23). Although the last two sessions of the hearing were nominally concerned with Appellant's Motion for Supersedeas—which was ultimately denied—the parties broadened its scope to include a re-examination of the trade secret question and the propriety of any order enjoining Appellants from operating a personnel agency in San Bernardino (e.g., II R. 147:9-160:8).

Respondent cannot agree with Appellant's assertion that there is ''little evidentiary conflict'' in this action (App. Br. 2). On the contrary, there is more than a little evidentiary conflict and there is substantial disagreement regarding interpretation of evidence in several vital areas: (1) the existence of unique, protectable business information and techniques in Snelling's initial training, manuals and management seminars; (2) the irreparable injury which Snelling would have suffered if Appellants had been allowed to operate a Riverside office; and (3) the alleged misrepresentations made to Appellant.

There is no conflict regarding the fact that Appellant had planned to open a San Bernardino office while still

carrying on negotiations with Snelling (II R. 41:15-25; 282:15-285:1), but had barely opened his doors when the preliminary injunction was entered. September 20, 1967, was the first day when counselors occupied the San Bernardino office (II R. 14:1-16). No advertisements had been run (II R. 17:1-15) and no job applicants had come to that office by September 21 (II R. 18:6-9). A receptionist was "in training" in Riverside, but had not yet reported for work (II R. 17:16-18:5). Telephones had been installed, but numbers had not been listed with information (II R. 15:8-18).

(a) *Trade Secrets*

Testimony regarding the trade secret question was given by: (1) Robert E. McDonough; (2) Elinor Still, defendant in a companion case, which was also before the court; (3) John McBrearty, Respondent's Vice President; (4) Damon Wheeler, the Snelling franchisee in Sacramento; and, perhaps, (5) James Chadwick, owner of an agency in San Diego. Mute testimony was offered by the manuals themselves which were introduced subject to a protective order (II R. 9:9-11:18; Pl. Ex. 1).

Elinor Still, testifying for Appellants, did not deny that the Snelling manuals contain some unique business information and techniques. Instead, she stated that they contain nothing unique "other than perhaps paper work" and techniques which she, herself, disliked:

> "Q Is there anything in your opinion, from the experience you have had in the industry of unique value among those practices, procedures, policies which Snelling advocates and outlined in its manuals?
>
> "A In all honesty, other than perhaps paper work and as I commented on the practices I don't approve of, there is nothing in any one of the manuals that is any different than maybe one, or two or maybe ten agencies in Los Angeles involved themselves in for ten years." (II R. 76:13-21; see also: 74:20-76:12).

She never commented on the franchisee's initial training or information disseminated at management seminars.

Robert E. McDonough contended that the manuals contained no unique information (II R. 32:21-33:3; 53:2-55:9) and introduced other manuals which allegedly gave similar guidelines (II R. 147:9-153:19; D. Ex. B). Like Elinor Still, he noted the detailed reporting and checking procedures prescribed in the Manager's Manual (II R. 53:24-54:8).

Appellants' only other witness who touched on the subject of trade secrets was James Chadwick, owner of a personnel agency in San Diego. After having hired consultants during his first thirty days in the business (II R. 156:2-18), Chadwick later hired S. David Davis, a former National Supervisor for the Snelling system (II R. 156:19-157:4). In return for an unspecified consulting fee, travel expenses, living expenses, and a six months' override, Davis had given Chadwick and his counselors a two-week training course. Chadwick hired Davis, in part at least, because of his former association with Snelling, but did not compare his training course with the Snelling system (II R. 157:5-160:17).

An industrial engineer by training, Damon Wheeler had been a business consultant for more than twelve years before purchasing a Snelling franchise and establishing the "Sacramento Snelling & Snelling Personnel Agency" in 1964 (II R. 84:21-85:21). As a business consultant, Wheeler had worked with Snelling and many other personnel agencies, becoming generally familiar with their business practices (II R. 86:8-87:24; 90:5-93:10). Since becoming a franchisee, Wheeler had extensive contacts with other members of the system and with operators of nonaffiliated agencies (II R. 93:25-95:8). From his contacts, Wheeler was able to compare and contrast Respondent's methods of operation with those of other agencies (II R. 94:3-97:3).

In Wheeler's opinion, there is a difference between the

methods, techniques and philosophies of Snelling and those of unaffiliated agencies:

> "Q What is that difference?
>
> A Well, the difference is not only in the scope of the concept which is covered in the manual, which covers all phases of the business both from a counselor and managerial point of view, but our total approach, the philosophy is different.
>
> Q What is the difference?
>
> A Well, Snelling preaches the philosophy that "We place people; we don't fill job openings." I notice that our placements, from what I can determine in talking to my competitors, are much higher with this concept.
>
> Q How does this contrast with whatever system or technique that is used by other employment agencies in general?
>
> A Well, the usual agency that I am familiar with does what we call fill job orders. They have orders on the desk and they are trying to attract people to put into those positions. We do that, plus; in other words, we work on the basis of whoever comes into our office is placeable somewhere, and that we engage in finding those people employment opportunity." (II R. 95:19-96:15)

He believed that the Manager's Manual gave him information which he "would have had to learn the hard way, by opening an office and learning by making the mistakes you would make in opening a new business" and thought "the guidance given me in that manual in all respects permitted me to make the kind of start that we made and the future success that we have made" (II R. 98:9-15).

Wheeler earned $20,000.00 in his first year of operations, $40,000.00 in his second, and $55,000.00 in his third (II R.

97:18-22). He attributed some, if not all, of this success to the detailed guidelines laid down in the manuals:

> "I would say, however, that the detail with which these manuals are prepared really I think gave me a tremendous edge and a real start, a leg up in business so to speak. I wouldn't have known a lot of — I would have learned, I would have learned eventually how to run an office of this type, but I do feel very strongly that this information did give me a real advance, a competitive edge so to speak." (II R. 101:3-10)

In addition to receiving the manuals and their initial training, Snelling franchisees attend the annual regional seminars which John McBrearty described in some detail (II R. 163:8-168:3). Each of these seminars deals with some aspect of the personnel business which has been the subject of intensive study. McBrearty pointed out that: "it takes about a year to compile these studies, not only to make the research which you have done, but then it has to be compiled in a very meaningful manner so as to put across" (II R. 166:4-10). This information—the product of a year's research—was unquestionably received by Robert E. McDonough, who regularly attended seminars in San Francisco (II R. 168:4-169:7).

(b) *Irreparable Injury*

Instead of being confined to the more limited question of how Appellants' office in San Bernardino would affect the Van Tilburg's existing franchise (and, therefore, the revenues which Snelling derived from it), John McBrearty's testimony was largely devoted to the total impact which defiance of the restrictive covenant would have upon the Snelling organization. His opinion was not based upon direct threats or other representations which franchisees had made to him after September 20 (II R. 250:13-251:21), but upon the knowledge of their attitudes and probable behavior which he had gained as a National Supervisor and as Vice President of Snelling and Snelling (II R. 174:14-25 251:22-253:6).

At the time of McBrearty's testimony, a number of Respondent's franchisees were attempting to renegotiate their contracts (II R. 247:23-249:11) and some others, particularly in the Franchise Owners' Association, had expressed discontent with the organization (II R. 238:20-246:8; 253:7-19). Word of the San Bernardino problem had been spread through the "grapevine" (179:4-16), and it may have been mentioned in at least one Snelling publication (II R. 201:3-202:14). Furthermore, Anne Van Tilburg, the San Bernardino franchisee and party directly harmed by Appellants' action, was an active member and officer of the Franchise Owners' Association (II R. 276:16-25).

On the basis of his knowledge of the franchisees and their attitudes, McBrearty concluded that as many as fifty of them would leave the organization if Appellants were allowed to compete with the existing San Bernardino franchisee (II R. 176:8-177:3). Such a loss could cost Respondent as much as $500,000.00 per year and have a crippling effect upon the organization (II R. 177:4-178:16).

McBrearty's alleged "confusion" as to whether such loss could flow from Appellants' ultimate success after this action had been fully litigated, or from operation of an agency in San Bernardino *pendente lite* if the preliminary injunction were refused (App. Br. at 12), is more apparent than real. He was clearly concerned with the impact of any continuation of the McDonough operation in San Bernardino and believed that it would endanger Respondent's organization (II R. 181:19-184-2).

In addition to John McBrearty's testimony, the Court could take judicial notice of the fact that other Snelling franchisees were present throughout the protracted hearings (II R. 49:18-25; I R. 131). The Court also knew of ferment within the Snelling organization from a companion case arising out of a letter, circulated nationally to Snelling franchisees by Elinor Still, which discussed the California situation and urged them to breach their agreements (II R. 43:1-46:14; 72:9-18 I R. 130).

Following the McBrearty testimony, Robert E. McDonough testified that he had sought out a number of Respondent's franchises — including many of those who were renegotiating contracts — at a recent meeting of the National Employment Association, discussed the San Bernardino situation with them, and decided that they were generally indifferent to it (II R. 270:1-276:15). Thus, there is no conflict regarding the fact that it was well advertised throughout the system.

(c) *Alleged Misrepresentations*

Respondent has had a multitude of problems with the use of the name "Snelling & Snelling" by its franchisees in California. Two early franchisees claimed an exclusive right to use that name in California and eventually brought an action to prevent others from using it (II R. 69:9-71:18; see also: *William La Perch and W. J. Mills, Partners dba Snelling & Snelling v. Snelling & Snelling, Inc.*, L.A. Superior Ct. No. 863092). The California Labor Commissioner, acting pursuant to section 11803 of the Administrative Code adopted a similar position, but allowed the use of "Snelling & Snelling" preceded by a geographical designation. Thus, a franchisee such as Damon Wheeler was required to style his agency "Sacramento Snelling & Snelling" rather than "Snelling & Snelling — Sacramento" (II R. 259:13-260:2).

The rather heated dispute which ensued between the Labor Commissioner and La Perch and Mills, on the one hand, and Respondent, on the other, is evident in the *La Perch and Mills* case and can be gleaned from the testimony of Deputy Labor Commissioner Ruth M. Spiers, William La Perch, Robert A. Smith and John McBrearty (II R. 69:9-71:22; 130:10-142:4; 237:7-21; 257:9-263:15). In any event, the Labor Commissioner changed his ruling in September of 1964, forbidding use of "Snelling & Snelling" in an agency's name, but allowing the agency to advertise that it is a "member of Snelling & Snelling" (II R. 260:3 262:25), as Appellant did until May of 1967 (II R. 37:7-28:6).

The Labor Commissioner also prohibited franchisees from obtaining listings in the "white pages" of the telephone directory under the name Snelling & Snelling. However, this ruling was not made until the fall of 1965, some months after Appellants obtained their franchise (II R. 31:12-24; 263:16-264:2).

According to Robert E. McDonough's testimony, mention was made of a "California problem" when he took his training in Pennsylvania, but the "problem" was never explained, and he did not press the question when told that it had been "worked out" (II R. 56:11-58:16). He discovered the nature of the "problem" when he applied for a California license in April of 1965 (II R. 19:6-23), although his first recorded protest is the "recission" letter of May 19, 1967 (I R. 56-59).

Respondent's national advertising is admittedly less beneficial to a franchisee who can identify himself as "a member of Snelling & Snelling", but cannot use "Snelling & Snelling" as part of his firm name (237:16-238-7). However, the record below does not establish whether this fact *substantially* diminishes the value of Snelling training and a Snelling franchise.

Both McDonough and Wheeler had some correspondence with the Labor Commissioner because they followed practices which are suggested by the Manager's Manual, but do not meet with favor in California (II R. 63:25-66:9 108:24-113:7). As the Manager's Manual notes:

> "It is virtually impossible for us to write a manual that fully advises all the members of the SNELLING AND SNELLING SYSTEM of the legal requirements in each of the scores of cities in which our system operates. For instance some cities and states have laws prohibiting certain practices of discrimination because of race, color, religious creed, ancestry, age or national origin. Others have laws specifying certain forms to be used for applications, contracts, introduc-

tion cards, receipts, invoices, etc. Still others specify certain advertising practices.

"Should any part of this manual be inconsistent or in conflict with the laws governing your operations and regulations, whether they be federal, state or municipal, then you are to disregard that part of the manual and you are instructed to strike from the manual any such inconsistency or conflict and to insert in place thereof the correct instructions." (MM:IX).

(d) *Ruling of the District Court Re: Trade Secrets, Irreparable Injury and Misrepresentations:*

On November 21, 1967, the District Court entered detailed Findings of Fact and Conclusions of Law, saying, in part:

"Plaintiff's training manuals, and the training and instructions therein given by plaintiff to each of its licensed franchisees and to the employment counselors hired by its licensed franchisees, constitute a compilation of information not available to other persons engaging in the employment agency business, which gives each of plaintiff's licensees a substantial competitive advantage over others engaged in the employment agency business. Defendants McDonough, in receiving plaintiff's manuals and training, derived such competitive advantage from plaintiff. . . . From the testimony of defendants' witnesses, it is apparent that defendants have numerous complaints about plaintiff and objections to certain aspects of plaintiff's employment agency system. The Court has no evidence before it at this time as to the extent or gravity of these complaints and objections, and cannot draw final conclusions on whether these complaints and objections are serious enough to give defendants, including defendants McDonough, legal recourse against plaintiff until after appropriate pleadings are filed raising such complaints and objections to judicial level and until there has been

a trial on the merits. But it is reasonable to conclude, based upon the evidence before the Court, that plaintiff's relations with its franchisees in the State of California are in a state of some turbulence. Further, judging from the facts set forth before the Court in the records and papers on file in the companion case, *Snelling & Snelling, Inc. v. Elinor Still, et al.*, No. 67-1381-TC, and in particular the letter of Elinor Still attached as an exhibit to plaintiff's moving papers therein, which has now been mailed nationwide to all plaintiff's franchisees, it is reasonable to conclude that this condition of some turbulence exists to some extent elsewhere in plaintiff's employment agency system outside the State of California. Finally, based upon the attendance at the hearings in this matter and in the companion case of a number of plaintiff's franchisees, of which this Court can and does take judicial notice, it is also reasonable to conclude that the present hearings and proceedings are the subject of considerable interest and attention throughout plaintiff's employment agency system. Based upon these considerations, the Court finds that unless defendants McDonough are enjoined and restrained by this Court from operating a new employment agency office in San Bernardino, California, in addition to their Riverside office, there is a substantial probability that plaintiff will be caused great and irreparable injury thereby, which no amount of money damages could ever compensate, in that other presently current franchisees in plaintiff's system will be encouraged by the example of defendants McDonough to likewise disregard their contracts, cease paying overrides, and open other or additional offices without permission from plaintiff, which is otherwise required by said license agreements. Such would tend to destroy and subvert plaintiff's employment agency system, all to plaintiff's incalculable damage; and no legal remedy would be adequate to compensate plaintiff therefor" (I R. 130-131).

(e) *Ruling of the District Court Re: the Restrictive Covenant*

The District Court also determined that a California court would apply Pennsylvania law pursuant to Paragraph 17 of the parties' license agreement and enforce the restrictive covenant found in Paragraph 8(b). In doing so, it relied upon principles which were recently articulated by California's District Court of Appeals in *Ury v. Jewelers Acceptance Corp.*, 227 Cal. App. 2d 11 (1964), and are reflected in Section 1105 of the Commercial Code (IR 134-137).

## QUESTIONS PRESENTED

*This appeal presents one overriding question:*

Did the District Court abuse its discretion when it decided that this action presents grave and difficult questions of law and fact and a sufficient possibility of irreparable injury to justify the granting of a preliminary injunction which will preserve the *status quo* pending trial?

*It also presents subordinate questions:*

1) Given the fact that California's public policy against contracts in restraint of trade is subject to many judicially and legislatively created exceptions which indicate that it has no rigid, uniform policy against such contracts, would a California court enforce a restrictive covenant which is clearly valid in Pennsylvania, but possibly invalid in this state, when the parties have agreed that their contract will be interpreted and governed by the laws of Pennsylvania?

2) Do business training and business information which give their user significant advantages over his competitors constitute "trade secrets" when the user and the supplier of such training and information have agreed that they were received in confidence and will be treated as trade secrets?

3) Will a franchisor suffer "irreparable injury" justifying the granting of a preliminary injunction when a franchisee violates a restrictive covenant, appropriates the franchisor's trade secrets and then competes with him in an economically significant market area?

4) Will a franchisor suffer "irreparable injury" justifying the granting of a preliminary injunction when a franchisee's violation of a restrictive covenant and appropriation of the franchisor's trade secrets will induce other franchisees to take similar action at a cost of more than $500,000.00 per year to the franchisor?

## SUMMARY OF ARGUMENT

Although both parties' briefs are concerned with some of the more complicated legal and factual questions which must be resolved at trial, the outcome of this appeal will turn on a far simpler issue: did the District Court abuse its discretion when it decided that a preliminary injunction, which would preserve the *status quo,* should be entered? If it correctly concluded that Respondent raised grave and difficult questions of law and fact and could suffer irreparable injury before trial if the injunction were not granted, then the District Court's action should be affirmed.

Two essentially factual questions were decided in Respondent's favor when the District Court concluded that Snelling & Snelling has protectable trade secrets and that it would suffer irreparable injury if Appellants were permitted to open a personnel agency in San Bernardino. Although Appellants may dispute the weight assigned to portions of the evidence presented, they cannot seriously contend that the decisions made below were unsupported by substantial evidence. Appellants might like to see this case retried in our briefs, but this Court does not sit to reweigh evidence which has already formed the basis for a reasonable decision.

The legal question regarding the validity of Respondent's restrictive covenant might have been a close one if

California's District Court of Appeals had not dealt with an identical issue some four years ago in *Ury v. Jewelers Acceptance Corp.*, 227 Cal. App. 2d 11 (1964). Principles which it formulated and articulated provide a ready answer. If this action had been brought in a California state court, the parties' choice of Pennsylvania law would have been honored and the restrictive covenant would have been enforced because: 1) the parties have chosen the law of Pennsylvania, a state having substantial "contacts" with their agreement; 2) the covenant is unquestionably valid under the law which they have chosen; and, 3) California's policy against contracts which restrain trade is not so strong as to invalidate their choice.

While Appellants' brief is liberally laced with accusations of fraud and deceit, final disposition of these charges must await a full trial on the merits. Meanwhile, they must be viewed in their proper perspective. The first cry of "fraud" rang out some *two years* after Robert E. McDonough had purchased his franchise, but just *nine days* after his franchise had been terminated for non-payment of overrides.

## ARGUMENT

### I. THE DISTRICT COURT CORRECTLY DETERMINED THAT APPELLANTS SHOULD BE ENJOINED FROM OPENING AN OFFICE IN SAN BERNARDINO IN VIOLATION OF A VALID RESTRICTIVE COVENANT.

#### A. The District Court Correctly Decided That the Restrictive Covenant Was Enforceable Under Pennsylvania Law, Which Had Been Chosen by the Parties to Govern Interpretation and Enforcement of Their Agreement.

Appellants, acting with the advice of counsel (II R. 8:11-20) freely entered into a license agreement with Respondent. Paragraph 17 of that contract contains an unambiguous choice of law clause which provides that this "agreement shall be interpreted and governed by the laws

of the Commonwealth of Pennsylvania." Those laws — which Appellant nowhere discusses — fully support the District Court's decision to enforce the restrictive covenant found in Paragraph 8(b).

Pennsylvania law governing enforcement of restrictive covenants was carefully reviewed by Justice Cohen in *Morgan's Home Equipment Corp. v. Martucci,* 390 Pa. 618 (1958). In *Morgan,* plaintiff's former employees attacked a clause in their employment contracts which provided that they would not compete with him within a radius of 100 miles for a period of one year following termination of employment. Upholding the covenant, the Court observed:

> "covenants not to compete . . . serve a useful economic function; they protect the asset known as 'goodwill' . . . indeed in many businesses it is the name, reputation for service, reliability, and trade secrets which constitute the inducement for a sale." 390 Pa. at 631.

*Pennsylvania Funds Corp. v. Vogel,* 399 Pa. 1 (1960), presented a factual situation closely paralleling the controversy which gave rise to this appeal. The defendant, who was employed to sell mutual funds, had agreed not to compete with plaintiff throughout the state of Pennsylvania for two years following the end of his employment. In rejecting the former salesman's contention that the contract should not be enforced, the court commented:

> "Plaintiff has expended considerable sums of money and time in creating goodwill and *in maintaining an extensive and continuous training program for its employees and salesmen* and, as a result of its policy of public relations and continuing education for its employees and salesmen in the securities field, it has become a substantial and well-established retail dealer of mutual funds in Pennsylvania. Much of the *training, literature and instruction is tailored to problems unique to the sale of mutual funds* and was

> especially prepared by Douglas K. Porteous, president of Pennsylvania Funds, who has had wide experience in the sale of securities and is *a recognized authority* in the field. . . . [T]he aforesaid activities of the defendant have caused and threaten to continue to cause irreparable damage to plaintiff's valuable goodwill, and negate the efforts and monies invested in plaintiff's employee training program.'' 399 Pa. at 7-8.

The Pennsylvania Supreme Court's reasoning in *Pennsylvania Funds* unquestionably applies to the present action. Snelling & Snelling has developed a national employment agency system with more than two hundred members. It has expended time and effort in training Appellants and their counsellors. The training and manuals which Respondent furnished were: (1) tailored to problems unique to employment agencies; and, (2) were specially prepared by Robert O. Snelling, Sr., who has wide experience in operating such agencies. In return for receiving their training and Respondent's manuals and other literature, Appellants solemnly promised not to compete with Respondent within thirty-five miles of Riverside for a period of three years or within thirty-five miles of any other Snelling franchise for a period of eighteen months. Here, Respondent has asked for and received relief which places a far lighter burden upon Appellant than the restriction approved in *Pennsylvania Funds* placed upon the former employee.

Pennsylvania's policy in favor of such restrictive agreements is sufficiently strong that its courts will ''blue pencil'' overly broad covenants, modifying them so that they can be enforced for a reasonable time within a suitable area. *Albee Homes, Inc. v. Caddie Homes, Inc.,* 417 Pa. 177 (1956); *Seligman and Latz of Pittsburgh, Inc. v. Vernillo,* 382 Pa. 161 (1955); *Plunkett Chemical Co. v. Reeve,* 373 Pa. 513 (1953). In the present case, however, they would have no need to ''blue pencil'' the restrictive covenant

because neither its time nor duration exceeds permissible limits. *Hayes v. Altman,* 424 Pa. 23 (1967) (three years, borough wide); *Beneficial Finance Co. v. Becker,* 422 Pa. 531 (1966) (three years, no geographical restriction); *Barb-Lee Mobile Frame Co. v. Hoot,* 416 Pa. 222 (1965) (five years, state wide); *Pennsylvania Funds Corp. v. Vogel supra* (two years, state wide).

Faced with a covenant which was entirely proper under law which the parties themselves had chosen, the District Court acted properly in enforcing that covenant unless it was certain that a California court would do otherwise. As we shall see, a California state court would have honored Pennsylvania law and taken precisely the same action as the District Court.

**B. The District Court Correctly Applied Principles Laid Down by California's District Court of Appeals in Ury v. Jewelers Acceptance Corp. When It Applied Pennsylvania Law and Enforced Respondent's Restrictive Covenant.**

The parties to this appeal share some fundamental areas of agreement in approaching questions posed by the restrictive covenant contained in Paragraph 8(b) of the license agreement. Appellants have never questioned the covenant's validity under Pennsylvania law and concede that it is binding if the District Court correctly applied Paragraph 17. We also agree that Federal courts cannot modify state law at will in diversity cases, but must "apply it as they find it." (App. Br. at 15). Judge Duniway, speaking for this Court in *Curry* v. *Fred Olsen Line,* 367 F.2d 921, 924 (9th Cir. 1966), aptly stated the rules which must be followed in evaluating the District Court's decision to apply Pennsylvania law and enforce Paragraph 8(b).

We part company with Appellants, however, when we turn to the question of how California conflict of laws rules governing enforcement of provisions such as Paragraph 17 and 8(b) are to be "found" and applied. Instead of

beginning with the most recent and detailed discussion of the applicable rules in *Ury* v. *Jewelers Acceptance Corp.*, 227 Cal. App. 2d 11 (1964), and then considering the present action in light of those rules, Appellants have attempted to brush *Ury* aside because it did not involve a restrictive covenant. Respondent, on the other hand, believes that *Ury* states fundamental principles which must be considered and applied in all relevant cases.

A careful analysis of the *Ury* case is important precisely because, by their own admission, "Appellants find no California state court appellate decision squarely on the point of whether its public policy against covenants in restraint of competition is sufficiently strong to justify it in ignoring a contract proviso that the law of another jurisdiction apply" (App. Br. at 22). The principles announced in *Ury* provide definite answers to the questions posed by Paragraphs 8(b) and 17, although they are not the answers that Appellants want to hear.

Walter Ury, who owned a retail jewelry and appliance business, in Pittsburg, California, entered into an agreement with Jewelers Acceptance Corporation whereby the Corporation would factor his accounts receivable for an interest charge of 20.3 percent per year. Jewelers Acceptance was based in New York and had adopted a standard form contract which provided that it would be "construed pursuant to the Laws of the State of New York." After the parties had abided by the agreement for four years, Ury withheld payments on the ground that the interest rate amounted to usury. 227 Cal. App. 2d at 13-15.

The interest rate was clearly in violation of Article XX, Section 22, of the California Constitution, which forbids interest in excess of ten percent per annum, except for certain exempt lenders. It would have been usurious in New York, too, but for the fact that the defense of usury is not available to corporate borrowers under its law. To his subsequent regret, Ury had incorporated when Jewelers Acceptance stated that it required customers to incorporate

"in order to assure continuity of the business and of the loan in case of death or divorce," saying nothing about the fact that incorporation would also validate usurious interest rates. 227 Cal. App. 2d at 14.

In upholding the decision below, which had awarded Jewelers Acceptance principal, interest and attorneys' fees of $40,807.68, the District Court of Appeals first noted that the contract was made in New York and required the lender to perform significant acts in that state. It then turned to the parties' stipulation that New York law should govern, holding that the clause resolved any remaining doubts regarding applicable law. 227 Cal. App. 2d at 16-17. Reviewing the choice of law clause, the Court said:

> "It is stated that the contract is to be construed pursuant to the laws of New York, and respondent need not rely on the presumption that Ury read this, because Ury admits that he did. Appellant argues that this provision means only that in case of ambiguity, the contract would be interpreted according to New York law, and that it does not refer to the governing or enforcing of the contract.
>
> "The quoted portion is not nearly so broad as those in other cases which have made it plain that the parties have chosen that the law of a certain state shall prevail in all matters concerning the contract, such as: 'all transactions hereunder shall be governed and construed by the laws of the State of New York' (*Consolidated Jewelers, Inc. v. Standard Financial Corp.* (6th Cir.) 325 F. 2d 31, 33), or 'All questions arising on this contract ticket shall be decided according to English law with reference to which this contract is made' (*Siegelman v. Cunard White Star, Ltd.* (2d Cir.) 221 F. 2d 189, 192)." 227 Cal. App. 2d at 17.

Its remarks clearly indicate that a broad choice of law clause, such as the one found in the Snelling agreement, will be given even greater weight by California courts.

It also relied upon our courts' marked preference for a choice of law which will render a contract enforceable:

> "[A] contract is to be construed so as to make it valid even though foreign law must be applied in order to reach this result. (*Robbins v. Pacific Eastern Corp.*, 8 Cal. 2d 241 [65 P. 2d 42].) In the *Robbins* case, the court construed an agreement which was ambiguous as to place of delivery of stock as being New York rather than California, because the contract would be valid in New York but invalid if it were to be performed in California (p. 274), and New York had a normal and reasonable connection with the transaction (p. 272). In *Terry Trading Corp. v. Barsky*, 210 Cal. 428, 434 [292 P. 474], the court, in a doubtful case of conflict, chose the California law as less drastic than the New York law which would have made an usurious contract wholly void (the borrower was not a corporation)." 227 Cal. App. 2d at 18.

Predictably, Ury contended that California's "strong public policy" against usury precluded the Court from applying New York law. After weighing this contention carefully, it concluded that the public policy was strong, but not strong enough to override the provisions of the contract:

> "That California does not have *such a strong public policy* against any and all contracts which would be usurious if they were made and to be performed here, appears from the fact that the constitutional prohibition of usury, section 22, article XX, of the California Constitution, enacted by initiative, exempts from its provisions banks, building and loan associations, industrial loan companies, credit unions, licensed pawnbrokers and personal property brokers, and several other kinds of lenders, and gives the Legislature the right to prescribe maximum limits for the exempted lenders. A strong public policy, based on a settled concept of justice or morality would not be meshed

with such alterable rates as the Legislature might choose to impose. In fact, the Legislature has imposed no maximum rates for banks. The loan in this case, if it had been made by a bank in California and was payable here, could be enforced.

"In *Nevcal Enterprises, Inc. v. Cal-Neva Lodge, Inc.,* 194 Cal. App. 2d 177 [14 Cal Rptr. 805], it was held that a contract for sale of a gaming establishment in Nevada is not essentially in conflict with the public policy of California, in view of our legitimized horse racing, and suit for accounting would lie." 227 Cal. App. 2d at 20 (Emphasis supplied).

To paraphrase the Court, a strong public policy — even though embodied in the California Constitution — will not prevent the application of foreign law when that policy is subject to significant exceptions.

We need not belabor the similarities between the factors governing the choice of law in the *Ury* case and those governing the choice of law in this appeal. The McDonough contract was made in Pennsylvania at a time when Appellants were not even residents of California. Thereafter, both parties had to perform many activities in Pennsylvania. Robert McDonough went to Pennsylvania for training and had to make regular reports and payments to Respondent's home office in Radnor, Pennsylvania. Respondent trained its franchisees, reviewed their reports, supervised their operations and conducted its national advertising from Radnor. (I R. 125-126; II R. 8:7-9:8; 22: 4-20; 163:8-168:3; 264:14-266:14; MM 241-250) The *Ury* Court, which applied a somewhat ambiguous choice of law clause when it found a "substantial connection" between the contract and New York, 227 Cal. App. 2d at 18, would have had no reason to reach a different conclusion if faced with Appellant's agreement — a contract which had an equally "substantial connection" with Pennsylvania and contained a far clearer choice of law

provision. See also: *People v. Globe & Rutgers Fire Ins. Co.*, 96 Cal. App. 2d 571 (1950).

The California Legislature endorsed the policy set forth above when it adopted Section 1105 of the Commercial Code, which provides:

> "Except as provided hereafter in this section, when a transaction bears a reasonable relation to this State and also to another state or nation the parties may agree that the law either of this State or of such other state or nation shall govern their rights and duties. Failing such agreement this code applies to transactions bearing an appropriate relation to this State."

Far from being irrelevant, as Appellants contend, Section 1105 is an important expression of legislative policy endorsing the freedom of parties to choose applicable law in business transactions. It parallels the present draft of the *Restatement (Second), Conflict of Laws* §332(a), which has adopted a like rule. See: Braucher, *Impromptu Remarks*, 76 HARV. L. REV. 1718, 1718-1720 (1963). If businessmen can select the law of a state which bears "a reasonable relation" to a multi-million dollar equipment financing or a contract for the sale of a few hundred dollars worth of goods, should they be any less free when the contract involves an employment agency in Riverside?

### C. California's Prohibition Against Contracts in Restraint of Trade Is Not So Strong as to Preclude the Application of Pennsylvania Law Governing Restrictive Covenants.

The only consideration which could invalidate the District Court's decision is a public policy *so strong* that it prevents application of Paragraph 17 in a case involving a restrictive covenant. As Appellants freely admit, there is "no California state court appellate decision squarely on the point of whether its public policy against covenants in restraint of trade is sufficiently strong to justify it in ignoring a contract proviso that the law of another jurisdiction apply" (App. Br. at 22).

Appellants seek to remedy this deficiency in decisional law by citing California cases which say that this state has a "strong" policy against contracts in restraint of trade. This approach is good advocacy, but bad analysis, because it begs the most significant question: do the provisions of Sections 16600 et. seq. of California's Business and Professions Code express a policy against contracts in restraint of trade which is *so strong* and *so consistent* that it prevents courts from applying a foreign law approving restrictive covenants when the parties to a contract have freely agreed that it should be applied? References to "strong" policy, made in other contexts, do not answer the question because "strong" is not a self-defining term, which carries the same force and meaning in all circumstances.

In *Ury,* the District Court of Appeals examined California's usury laws and determined that they are subject to significant exceptions. Having found that our usury law is not a solid, impregnable, monolith it recognized and applied foreign law even though it did not fit within one of these statutory exceptions. The same approach was followed by the District Court in the present action and should be followed by this Court if it wishes to apply California law "as it finds it."

Section 16600 of the Business and Professions Code is honeycombed with judicially created exceptions although it purports to invalidate "*every* contract by which *anyone* is restrained from engaging in a lawful profession, trade or business of any kind. . . ." (Emphasis supplied). See: *Gordon v. Landau,* 49 Cal. 2d 690 (1958); *Great Western Distillery Products v. John A. Wathen Distillery Co.,* 10 Cal. 2d 442 (1938); *Blank v. Palo Alto-Stanford Hospital Center,* 234 Cal. App. 2d 377 (1965); *Boughton v. Socony Mobile Oil Co.,* 231 Cal. App. 2d 188 (1965); *King v. Gerold* 109 Cal. App. 2d 316 (1952); *Bay Area Painters & Decorators Joint Committee v. Orak,* 102 Cal. App. 2d 81 (1951). In light of our courts' flexible "rule of reason" approach to Section 16600, Appellants cannot seriously contend that

it articulates a stronger, more rigid public policy than our usury laws do.

Like the usury laws, Section 16600 is subject to other important provisions which blunt its impact. Sections 16601 and 16602 provide:

§16601.

> "Any person who sells the goodwill of a business, or any shareholder of a corporation selling or otherwise disposing of all his shares in said corporation, or any shareholder of a corporation which sells (a) all or substantially all of its operating assets together with the goodwill of the corporation, (b) all or substantially all of the operating assets of a division or a subsidiary of the corporation together with the goodwill of such division or subsidiary, or (c) all of the shares of any subsidiary, may agree with the buyer to refrain from carrying on a similar business within a specified county or counties, city or cities, or a part thereof, in which the business so sold, or that of said corporation, division, or subsidiary has been carried on, so long as the buyer, or any person deriving title to the goodwill or shares from him, carries on a like business therein. For the purposes of this section, " subsidiary" shall mean any corporation, a majority of whose voting shares are owned by the selling corporation."

* * * * *

§16602.

> "Any partner may, upon or in anticipation of a dissolution of the partnership, agree that he will not carry on a similar business within a specified county or counties, city or cities, or a part thereof, where the partnership business has been transacted, so long as any other member of the partnership, or any person deriving title to the business or its goodwill from any

> such other member of the partnership, carries on a like business therein."

Putting aside the question of whether either Section specifically validates Snelling's restrictive covenant, the mere existence of such exceptions to Section 16600 — whether or not applicable to Respondent's covenant — demonstrates that California's prohibition of "every contract" in restraint of trade is no stronger than its prohibition against usurious contracts.

Furthermore, the Legislature has been progressively broadening the exemptions from Section 16600 which are provided by Sections 16601 and 16602. In 1945, Section 16601 was amended to permit imposition of a non-competition covenant upon one who disposes of all of his corporate shares. Stats. 1945, c. 671. Just five years ago, Sub-sections (a) through (c) were added to further widen the range of transactions which can result in valid restrictive covenants. Stats. 1963, c. 597. Section 16602 has had a similar history, having been amended in 1961 to expand the area of a valid covenant from "the same city or town" to "a specified county or counties, city or cities". Stats. 1961, c. 1091. It seems strange that the Legislature would repeatedly increase the number of transactions exempt from Section 16600 if, as Appellants contend, our state has an unchanging, unyielding policy.

Additional evidence that California's policy against restraints of trade is no stronger than the policy against usury can be found by examining cases arising under Section 16601. In numerous instances, our Courts have either: 1) validated restrictive covenants not specifically approved by the Section; or, 2) rewritten covenants to make them conform to the statutory scheme. As this Court has already noted, "the California courts have continually strained to put such a construction on covenants in restraint of trade as to save part of the contract, if possible." *Zajicek v. Koolvent Metal Awning Corp. of America,* 283 F.2d 127, 133 (9th Cir. 1960).

The cases in which California courts have "blue penciled" overly broad restrictive covenants to render them enforceable fully support this Court's generalization in *Zajicek. Edwards v. Mullin,* 220 Cal. 379 (1934); *Martinez v. Martinez,* 41 Cal. 2d 704 (1954); *Mahlstedt v. Fugit,* 79 Cal. App. 2d 562 (1947). Our courts' policy of attempting to save restrictive covenants is virtually identical to Pennsylvania's policy, which has already been considered.

In both *Gordon v. Landau,* 49 Cal. 2d 690 (1958), and *King v. Gerold,* 109 Cal. App. 2d 316 (1952), agreements were upheld despite the fact that they restrained trade and did not appear to come within the exceptions ennumerated in Sections 16601 and 16602. Landau, plaintiff's former salesman, was held to be bound by an agreement not to use alleged trade secrets for one year following termination of his employment, despite protests that his contract violated Sections 16600 et. seq. Gerold, who had held a license to manufacture King's unpatented house trailer, the "Sport King", was enjoined from producing similar trailers after the termination of his license agreement. 109 Cal. App. 2d at 318. In neither instance, would our courts support an interpretation of California policy which is so rigid and inflexible as the one advocated by Appellant.

California law admittedly invalidates some, but not all, contracts in restraint of trade, just as it invalidates some, but not all, usurious contracts. Our review of the legislative and judicially created exceptions to Sections 16600 et. seq. demonstrates that California's policy against restraints of trade is no stronger than its policy against usury. If there is any meaningful difference between the relative strengths of these policies, the prohibition against usury appears to be the stronger.

In order to sustain the District Court's decision enforcing Respondent's restrictive covenant, this Court must reconsider a decision which it made some forty-four years ago in *Davis v. Jointless Fire Brick Co.,* 300 F. 1 (1924). Despite what Appellants refer to as an "unbroken line of author-

ity'' (App. Br. 25), this Court has rarely alluded to *Davis* and the California courts have never cited it for the proposition that a choice of law clause in a contract may be disregarded on some public policy grounds. However, there are more important reasons for reconsidering *Davis* than the fact that it has gathered dust for four decades.

Few bodies of law have changed more rapidly than ''conflicts'' during the years since 1924. Professor Beale's *Restatement* is retreating into memory. The old, rigid rules are gone forever to be replaced by principles with a new flexibility. With these revolutionary changes has come a new willingness to let businessmen choose the law which will govern their contracts and to enforce the choices — good or bad — which they make. We see this willingness expressed in *Globe & Rutgers, Ury,* the Commercial Code and the new *Restatement.*

While applicable conflict of laws rules have been changing, our courts' and our legislature's views regarding Sections 16600 *et seq.* of the Business and Professions Code have also become less rigid. The development of judicially created exceptions to Section 16600 and the repeated amendments to Section 16601 and 16602 have demonstrated that California has no unyielding policy against contracts which restrain trade. Since 1924, dogmatism has been replaced by a flexibility which yields to economic realities.

These two trends, viewed together, undermine the principal assumptions supporting the *Davis* decision. Before *Ury,* there was room for doubt that *Davis* reflected the probable conclusion which a California court would reach. *Ury* has now resolved the question and commanded the adoption of a more flexible rule if California law is to be followed.

**D. The Restrictive Covenant Is Valid and Enforceable Because It Is Incident to a Contract for the Sale or Transfer of Goodwill.**

Appellants concede that covenants not to compete are valid if they are incident to agreements for the sale or transfer of goodwill (App. Br. 17-18) and later note that para-

graph 11 of the franchise agreement requires the licensee "to turn over every asset, record and even the telephone in its office, to Snelling" in the event of termination (App. Br. 56-57). "Every asset" clearly includes the goodwill and going concern value of the business, which Respondent is free to resell to a new franchisee.

Assuming the correctness of these propositions, we have some difficulty understanding how enforcement of the restrictive covenant would violate Sections 16600-16602 of the Business and Professions Code if California law governed. Paragraph 11 provides for a transfer of goodwill, and the Code specifically approves restrictive covenants incident to such transfers. Although that Paragraph does not use the magic word "goodwill", its purpose and effect are perfectly clear. Any draftsman could recast the language to recite the admitted fact that a transfer of goodwill occurs on termination without making any change in the substance of the transaction.

Although Appellants may contend that a Snelling franchise is analogous to a license to manufacture a product, *Cf. Zajicek v. Koolvent Metal Awning Corp. of America*, 283 Fd 2d 127 (9th Cir. 1960), there are important distinctions between a manufacturing license and a business franchise. Here, the entire business has been created by the franchisor and is operated by the franchisee in partnership with the national organization. Upon termination, that business reverts entirely to the franchisor. Furthermore, the franchisor does not have patent protection or the common law right to enjoin design copying which the licensor of a manufactured product enjoyed in most jurisdictions prior to the United States Supreme Court's decision, in *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U. S. 234 (1964).

Given the rapid growth of franchising, it is inevitable that the California courts will be called upon to determine whether a provision like Paragraph 11 constitutes a transfer of goodwill within the meaning of Sections

16601 and 16602. Appellants have pointed the way by giving Paragraph 11 the only logical construction. A transfer of every meaningful asset is a transfer of goodwill. A non-competition covenant incident to such a transfer is as valid as it would be if the magic word "goodwill" had been used.

## II. THE DISTRICT COURT CORRECTLY DETERMINED THAT APPELLANTS SHOULD BE ENJOINED FROM EXPLOITING RESPONDENT'S TRADE SECRETS BY OPENING A SAN BERNARDINO OFFICE.

### A. The District Court Correctly Determined That Trade Secrets Exist When a Businessman Has Compiled Any Valuable Information Which Gives Him an Advantage Over Competitors Who Do Not Know or Use It.

After hearing evidence on five separate occasions, the District Court found that:

> "Plaintiff's training manuals, and the training and instruction therein given by plaintiff to each of its licensed franchisees and to the employment counselors hired by its licensed franchisees, constitute a compilation of information not available to other persons engaging in the employment agency business, which gives each of plaintiff's licensees a substantial competitive advantage over others engaged in the employment agency business. Defendants McDonough, in receiving plaintiff's manuals and training, derived such competitive advantage from plaintiff. . . ." (I R. 130).

From this Finding, it concluded "that the manuals and the systemized training given in connection therewith constitute trade secrets, the use of which plaintiff is entitled to enjoin and restrain" (I R. 133).

In attacking the findings below, Appellants have constructed and demolished straw men (App. Br. 29-31), weighed equities using the wrong set of scales (App. Br. 32-42), and belatedly turned to the question of whether a compilation of information which gives a businessman a distinct competitive advantage is a "trade secret" entitled

to judicial protection in California (App. Br. 42-51).* The discomforting fact that such information will, indeed, constitute a trade secret when it supplies the possessor with a meaningful competitive advantage almost gets lost in the shuffle.

To determine the correctness of the District Court's decision below, we must reverse the course which Appellants have taken and understand the nature of "trade secrets" before moving on to subsidiary questions. Once we know what "trade secrets" are, we can consider: 1) the effect of a contract provision denominating information as "trade secrets"; and, 2) "policy considerations."

As this Court noted in *Winston Research Corp. v. Minnesota Min. & Mfg. Co.,* 350 F. 2d 134 (9th Cir. 1965) California law is in harmony with Section 757, comment b, of the *Restatement of Torts:*

> "A trade secret may consist of any formula, pattern, device or *compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.* . . . It may be a device or process which is clearly anticipated in the prior act as one which is merely a mechanical improvement that a good mechanic can make." 350 F. 2d at 139-140, Note 1 (emphasis supplied).

*Winston* held that a former employee's appropriation of a mechanical improvement in a tape recorder, although based upon well known principles, could constitute unfair competition. 350 F. 2d at 139; see also: *Ojala v. Bohlin,* 178 Cal. App. 2d 292 (1960). As one commentator recently observed:

> "The important fact in a trade secret case is not whether the information is new, or could have been discovered by other means, but whether the employee gained it from his employer via a confidential relationship. If so, he incurred a duty not to use it to the em-

*We use California law as our reference point because, as Appellants have correctly observed, the trade secret question is moot if Pennsylvania law is applied and the restrictive covenant is enforced (App. Br. 28).

ployer's detriment." Von Kalinowski, *Key Employees and Trade Secrets*, 47 VA.L.REV. 583, 592 (1961).

A trade secret is no less valuable and its owner is no less entitled to protection because it may be duplicated by someone else using his own talent and initiative. The owner has produced something of value and should be fully protected against misappropriation. *By-Buk Co. v. Printed Cellophane Tape Co.*, 163 Cal. App. 2d 157, 167 (1958).

Although this principle has most frequently been applied by our courts in "trade route" and "customer list" cases, liability does not, as Appellants contend (App. Br. 37), turn on the existence of a list or a route. Lists and routes are protected solely because they have taken "a substantial amount of time, effort and expense to obtain" and give someone who misappropriates them a competitive advantage which he did not create. Hays, *Unfair Competition — Another Decade*, 51 CAL.L.REV. 51, 52 (1963); see also: *Southern Cal. Disinfecting Co. v. Lomkin*, 183 Cal. App. 2d 431, 444-447 (1960); *Alex Foods, Inc. v. Metcalfe*, 137 Cal. App. 2d 415, 426-427 (1955). Any other compilation of valuable information should be given like protection.

Very little was said below about customer lists and contacts. However, Appellants unquestionably have both. They advertised regularly in San Bernardino and received San Bernardino business for two years prior to the letter of "recission" (II R. 27:9-30:17). During that two-year period, while Robert E. McDonough was still a Snelling franchisee, he inevitably built up contacts with potential employers in San Bernardino — contacts that he could exploit to Respondent's detriment if he were allowed to open a San Bernardino office:

"Q In your business do your employment counselors attempt to establish contacts with the prospective employers for people you are trying to get jobs for?

A In San Bernardino?

Q Yes.

A Oh yes.

Q And have you contacted employers in the San Bernardino area?

A Oh yes, absolutely, daily" (II R. 29:3-11).

Although McDonough's records enhance his ability to destroy Snelling's franchisee in San Bernardino, they are not the essence of Respondent's cause of action. Respondent's right to injunctive relief would exist if he had no records at all, since Snelling has given him other valuable, protectable information.

The notion that Respondent's training, its manuals and the information imparted to managers at periodic seminars are less valuable and entitled to less protection than routes or lists is dispelled by *American Loan Corp. v. California Commercial Corp.*, 211 Cal. App. 2d 515 (1963), which involved similar trade secrets. In *American Loan,* defendant Rooney had appropriated both the customer list and the training manual employed in an investment business and proceeded to set up a rival firm in Riverside County. When it affirmed the trial court's decision enjoining such unfair competition, the District Court of Appeals recognized that both the lists and the manuals contained valuable trade secrets:

> "[I]n order that it [Plaintiff's business] be understood by employees, he developed, over a period of months, for the confidential use of employees, a training manual covering all phases of the business. Rooney had a copy of this manual. . . . [T]he evidence shows that the information relative to the conduct of the business was of a type not readily obtainable in general business circles in the Riverside-San Bernardino area; that plaintiffs spent several months of study, many hundreds of dollars in tutelage, and experience in developing a particularly complicated type of ap-

> proach to sale of real estate secured credits on a piecemeal basis; *that the only other available source of such information known to any witness was by obtaining membership in a national organization at a cost of $3,500;* that the list of customers, contrary to defendants' contention, was *not* easily obtainable from recorded instrument lists nor was the information as to the purchasing habits of these customers obtainable in any other way than by reference to the index cards and Rooney's personal memory." 211 Cal. App. 2d at 518, 523 (emphasis supplied).

If information which can also be obtained by purchasing "membership in a national organization at a cost of $3,500," is protectable when developed by an individual entrepreneur, it follows that the "national organization" is entitled to protection. Another businessman in Riverside would have done well to profit by Mr. Rooney's example.

### B. The District Court's Determination That Respondent's Training Course, Manuals and Management Seminars Contain Valuable Trade Secrets Is Supported by Substantial Evidence.

Appellants have captured the essence of California trade secret cases by observing that each decision turns upon a careful examination of facts and circumstances (App. Br. 32-33). Hays has also observed that the existence or nonexistence of protectable trade secrets will depend upon factual considerations. Hays, *op. cit. supra* at 51.

Having grasped the importance of factual issues, Appellants proceed to disregard accepted principles governing appellate review of findings of fact (App. Br. 44-51). In order to support their interpretation of relevant evidence and contend that it "is all one way" (App. Br. 49), Appellants must stand the accepted rule on its head and construe all evidence in the manner most favorable to overturning the decision below.

Among the District Court's detailed findings was its determination that Snelling's initial training, manuals and

management seminars contain information, not readily available to other persons engaging in the employment agency business, which Appellants could use to obtain an advantage over competitors who do not know or use it (I R. 130; Finding of Fact 27). Appellants' cavalier treatment of established rules begins with their disregard of this Court's Rule 18(2)(d) which required them to specify "as particularly as may be" wherein that finding was wrong, *Commissioner of Internal Revenue v. Seaboard Finance Company,* 367 F. 2d 646, 650-652 (9th Cir., 1966); but, it does not end there.

This Court does not "sit to second guess the trial court, nor have . . . the power to do so under Rule 52(a) of the Federal Rules of Civil Procedure, 28 U.S.C.A., unless the findings are 'clearly erroneous.' " *Bloom v. United States,* 272 F. 2d 215, 223 (9th Cir., 1959). Appellants are charged with the burden of showing that the District Court's findings are "clearly erroneous." *Stephens v. Arrow Lumber Co.,* 354 F. 2d 732, 734 (9th Cir., 1966).

The finding that Snelling's manuals, initial training and management seminars contain a unique compilation of business information and techniques which give Appellants distinct competitive advantages is supported by substantial evidence which is reviewed in some detail in Respondent's Statement (pp. 11-14, *supra*). For example, Damon Wheeler explained the significant competitive advantage which he had received from the Snelling system and his resulting success as Respondent's Sacramento franchisee (II R. 84:21-85; 21; 95:10-96:15; 101:3-10). Respondent's Vice President, John McBrearty, detailed the planning and preparation of management seminars which are preceded by research into problems revealed by franchisee's periodic reports (II R. 163:8-169:7). Finally, the court had before it all of the Snelling manuals, including the important Manager's Manual which explains the detailed record keeping and reporting procedures that enable a franchisee to maintain internal controls and permit Respondent's head

office to detect weaknesses in the system (II R. 11; Pl. Ex. 1).

Counterbalancing this evidence was: 1) Robert E. McDonough's self-serving testimony that he had received no unique training or information from Snelling (II R. 32:21-33:3; 53:2-55:9); 2) Elinor Still's testimony that Snelling offers nothing unique *except* its record keeping, reporting system and some suggested practices which she dislikes (II R. 74:20-76:21); and, 3) a mixed bag of manuals which McDonough had gathered together (II R. 147:9-153:19; D. Ex. B). James Chadwick's testimony that he paid substantial consideration for training which he hoped would be similar to the Snelling system, though offered on behalf of Appellants, establishes that Respondents have something of value (II R. 156:19-157:4).

The District Court's finding is adequately justified by the evidence if no allowances are made for the biases of Robert E. McDonough and Elinor Still. However, it is reenforced when consideration is given to their hostility toward Respondent — a practice specifically approved by this Court in *Pursche v. Atlas Scraper and Engineering Co.*, 300 F. 2d 467, 485 (9th Cir., 1962):

> "The Court's findings were contrary to the direct testimony on the subject, but this evidence was all adduced from interested witnesses and was countered by substantial mute evidence from which the facts found by the trial court can be inferred. We are not convinced that the several findings of the district court are 'clearly erroneous'. . . ."

Here, as in *Pursche*, the Court had a substantial amount of "mute evidence" before it in the form of Snelling's manuals.

Faced with a reasonable finding that Snelling's techniques embody valuable information which gives a substantial advantage over competitors who neither know nor use the system, Appellants attempt to undercut it by recon-

sidering the evidence in the light of six factors which, according to Section 757, comment (b) of the *Restatement of Torts,* are "to be considered in determining whether given information is one's trade secret" (App. Br. 43-49):

> "(1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others."

If anything, "consideration" of these six factors strengthens Respondent's claim to trade secret protection when the evidence presented below is viewed objectively and not painted in vivid colors with a broad brush.

At the outset, we should note that three different classes of information are involved in Respondent's trade secrets: (1) information given to the franchisee-manager when he is trained in Pennsylvania; (2) procedures and techniques outlined in the various manuals; and, (3) management studies and techniques presented at Snelling's management seminars. The nature and significance of the manuals varies, with the Manager's Manual containing more vital and detailed information than either the Receptionist's Manual or the Counselors' Manuals. While both John McBrearty and Damon Wheeler were familiar with all three classes of information (II R. 88:3-94:21; 161:9-169:17), there is nothing in the record to indicate that any one of Appellants' witnesses, other than Robert E. McDonough, was familiar with all three types — Pennsylvania training, manuals and management seminars.

*Difficulty of Duplication*

There is no evidence at all that a person outside the Snelling system can obtain training comparable to that which Respondent gives in Pennsylvania (II R. 88:16-21) and at its management seminars (II R. 163:8-168:3). By their very nature, the Pennsylvania training and the seminars are unique to the Snelling system.

While other handbooks may be available (II R. 147:9-153:19; D. Ex. B), they do not match Respondent's set of manuals in their overall detail and in the thoroughness of Snelling's record keeping and reporting procedures, which are essential to efficient operation. Damon Wheeler, who was familiar with personnel agencies from years of experience as a management consultant, was convinced that costly trial and error would be the only alternative to obtaining Snelling manuals and training (II R. 101:3-10).

*Effort or Money Expended*

In an unbending, uncompromising mood, Appellants refuse to concede that National Supervisors who are available on call (II R. 105:25-107:9), the managerial manuals which Robert O. Snelling, Sr., devised (II R. 11; Pl. Ex. 1), the Snelling training course (II R. 88:16-21), *or* the management seminars and underlying research (II R. 163:8-168:3) cost money (App. Br. 47). The expenses entailed in developing such programs and materials are apparent on their face. Appellants cannot seriously contend that they are less than the costs of opening a loan company in Riverside, *American Loan Corp. v. California Commercial Corp., supra,* or a business selling restroom disinfectants in Los Angeles, *Southern Cal. Disinfecting Co. v. Lomkin, supra.*

*Value of the Information to Snelling and its Franchisees*

Unwilling to concede anything, Appellants suggest that information and business techniques which form the foundation of a nationwide system yielding an annual gross income

of $1,512,867 (II R. 178:6-8)— or 7% of franchisees' gross income of roughly $21,500,000 — have no value (App. Br. 46). Damon Wheeler was sufficiently convinced of their value that he purchased a Sacramento franchise after years of working with Snelling and other personnel agencies (II R. 86:8-93:10; 101:3-10). Little more than a year ago, Robert E. McDonough conceded their value when he expressed an interest in remaining a franchisee, provided that his override could be reduced (I R. 56-58; see particularly: I R. 57).

*Protecting Trade Secrets*

When we consider Respondent's diligence in guarding trade secrets, we must distinguish between actions which it could have brought against former counselors, who merely have access to the Counselor's Manual, and actions against franchisee-managers, who have had access to the initial training, the Managers' Manual, and management seminars (II R. 254:19-255:2). Once that distinction has been made, other classes within the managerial subgroup assume importance: 1) the former franchisee who had access to trade secrets, but never really learned the system or is so hopelessly incompetent as to be no threat (II R. 188:8-190:2); 2) former franchisee who operates in an area where Snelling has no offices (II R. 191:7-192:6); and, 3) the capable franchisee, like Robert E. McDonough, who would compete directly with Respondent's other franchisees by opening a new office. (II R. 134:22-135:7). Only the last of these really endangers the Snelling system (II R. 134:22-135:7; 188:8-190:2).

Since a relatively limited group can harm Respondent substantially, the fact that Snelling "has sought to prevent but six former employees or franchisees from utilizing their trade secrets until the present suit" (App. Br. 46) would indicate reasonable diligence in policing a franchise system when very few former franchisees have attempted to compete — if it told the whole story. However, the only wit-

ness to be examined at length regarding litigation had become Respondent's Vice President just a year and a half before the hearing below and could not detail all legal actions taken prior to that time (II R. 212:2-213:21).

Furthermore, Appellants assume that trade secrets have been permanently lost and that Respondent is without recourse where it has failed to seek injunctive relief *pendente lite* to close down an existing office (II R. 134:22-135:7). The fallacy of this proposition is demonstrated by the *LaPerch & Mills* case, where Snelling did not seek preliminary relief, but has had an injunction enforcing the restrictive covenant approved and entered since the District Court completed the proceedings below. See: *William LaPerch and W. J. Mills, Partners dba Snelling & Snelling v. Snelling & Snelling, Inc.,* L.A. Superior Ct. No. 863092.

Respondent has not been so litigious as to sue every former franchisee or corporate employee who came near another employment agency. If a former franchise salesman did not know the system, a former supervisor did not use it, or a former franchisee was incapable of exploiting it, Snelling stayed its hand and saved its treasury (II R. 188:8-190:2; 208:19-209:23; 227:19-228:22). This seems like an eminently reasonable course since the law does not — as Appellants suggest — require litigation with all real or imagined malefactors in order to preserve trade secrets.

*Limitation of Access*

Appellants' assertion that Respondent's trade secrets are "widely known by all employees of appellee, by the franchisees and the employees of the franchisees" (App. Br. 46) will not withstand examination. As we have repeatedly pointed out, only the franchisee-managers receive training in Pennsylvania, attend periodic management seminars and have continuing access to the Manager's Manual (II R. 105:12-24; 163:8-169:17; 254;19-255:4). Some counselors may receive some training in Pennsylvania (254:

25-255:2), but there is no evidence in the record that a significant number do. Furthermore, there is no evidence that anyone other than Robert E. McDonough has the contacts with employers in San Bernardino that he built up while a Snelling franchisee (II R. 27:9-30:17).

Even if we assume there is some leakage of information from the Snelling system, that fact does not permit Appellants to misappropriate Respondent's trade secrets. Although Appellants have cited no California decisions dealing with the effect of casual leakage of information upon the availability of trade secret protection, such authority as does exist indicates that it will not prevent injunctive relief. For example, in *Ungar Electric Tools, Inc. v. Sid Ungar Co., Inc.,* 192 Cal. App. 2d 398, 404 (1961) the District Court of Appeals upheld an injunction despite the fact that important aspects of plaintiff's trade secrets may have been disclosed by patents. Such a decision is eminently reasonable since no business can conform to the information control standards of the Central Intelligence Agency and still function efficiently.

*Knowledge of Secrets Outside of the System*

The question of whether, as Appellants claim, "all employment agencies in California use substantially the same methods, procedure and policies" (App. Br. 44) has already been dealt with (pp. 11-14 *supra*). All we need in conclusion is that trade secret protection as we have known it in California is dead if denial of injunctive relief can rest on testimony that no secret exists which is given by someone who: 1) accepted information in confidence over a substantial period of time; and, 2) would have maintained his confidential relationship if he could have negotiated a better business arrangement (II R. 56). If trade secret protection is to die, it should be sacrificed to a better cause than expansion of Appellants' business.

### C. The District Court's Decision That Respondent Has Protectable Trade Secrets Is Supported by the Express Understanding of the Parties.

Appellants have signed an agreement acknowledging the receipt of confidential information and pledging to respect its confidentiality. (I R. 89-92; see particularly: Paragraphs 8 and 11(g)). When they observe that such a contract cannot transmute common knowledge into "trade secrets" if no valuable collection of information exists (App. Br. 29-30), they state the traditional California rule, but beg the really interesting question: Should such understandings be given weight where a dispute exists regarding the existence of trade secrets?

In *State Farm Mutual Ins. Co. v. Dempster,* 174 Cal. App. 2d 418, 426 (1959), the District Court of Appeals held that a contractual provision was "not decisive" in determining the existence of trade secrets, but would be given some weight. To some extent, the "protected interest" is regarded as a product of the "accepted relationship of the parties." 174 Cal. App. 2d at 426.

As Hays noted, our courts traditionally have accorded some deference to the parties' expressed views and intentions where there is doubt regarding the existence of confidential information. Hays, *op.cit. supra* at 61, 69-70; see also: *By-Buk Co. v. Printed Cellophane Tape Co., supra* at 164 (1958). If this were a close case, a California court would undoubtedly consider Appellants' pledge to respect the confidentiality of Snelling's techniques in deciding that Respondent has protectable trade secrets.

The traditional rule, which was followed in *State Farm* and restated by Hays, was seriously undermined in December of 1966. In deciding *Ernst & Ernst v. Carlson,* 247 Cal. App. 2d 125 (1966), the District Court of Appeals held that one who receives information in confidence can be enjoined from using it to interfere with another's business *even though he has not been entrusted with a true trade secret:*

> "Any unwarranted disclosure of confidential information constitutes a breach of trust and equity will restrain any threatened disclosure or use thereof by an employee or former employee to the detriment of the employer. The character of the information, if peculiar and important to the business, is not material. *(Riess v. Sanford,* 47 Cal. App. 2d 244 [117 P. 2d 694].)
>
> Most of the cases discussed by the parties relate to trade secrets and the like, but the jurisdiction of equity is not so confined. In *Riess v. Sanford, supra,* 47 Cal. App. 2d 244, 247, the following quotation appears, in approval of a similar statement from the opinion of Mr. Justice Holmes in *E. I. DuPont de Nemours Powder Co. v. Masland,* 244 U.S. 100, 102 [ 61 L.Ed. 1016, 37 S.Ct. 575]: '. . . that the "starting point" is not property or due process of law but the confidential relation between the parties and that "Whether the plaintiffs have any valuable secret or not, the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied but the confidence cannot be. . . . The first thing to be made sure of is that the defendant shall not fraudulently abuse the trust reposed in him. It is the usual incident of confidential relations. If there is any disadvantage in the fact that he knew the plaintiffs' secrets, he must take the burden with the good.' " 247 Cal. App. 2d at 128-129.

While the *Ernst & Ernst* case goes further than earlier California decisions, it is in accord with the view that misappropriation of "commercial intangibles"—i.e., ideas, information or goodwill—is actionable even though true trade secrets are not involved. Comment, *Competitive Torts,* 77 HARV. L. REV. 888 (1964). As the latest pronouncement of a California appellate court, it lends further support to the relief granted by the District Court. Having accepted Respondent's training and manuals in confi-

dence, Appellants cannot now claim that they contain no trade secrets.

### D. The District Court's Decision That Respondent Has Protectable Trade Secrets Accurately Reflects Policy Considerations Which Prompt California Courts to Grant Injunctive Relief.

Before we leave the question of Respondent's trade secrets, something must be said regarding the discussion of "competing policy considerations" which forms a substantial portion of Appellants' argument (App. Br. 32-42). As we have already suggested, Appellants employ the wrong set of scales in "weighing the equities" because this is not a conventional employer-employee case. Robert E. McDonough was not a job applicant who had little bargaining power when he approached a potential employer, but a knowledgeable businessman with capital to invest, who negotiated an arms length transaction with the advice of counsel (II R. 7:18-8:1; 8:11-20; 50:7-51:4). When he attempted to renegotiate his contract, McDonough could and did demand that he be given a better deal as the price for continuing to respect Snelling's trade secrets (I R. 57).

Assuming for the sake of argument that the employer-employee cases are relevant, the equities weigh heavily in favor of Respondent because it is merely attempting to maintain the status quo, not to prevent Appellants from continuing to operate the business which they established through a Snelling franchise. Accepting the test which this Court announced in *Winston,* Respondent seeks minimal protection for the interests which it represents at minimal cost to the interests represented by Appellants:

> "On the one hand, restrictions upon the use and disclosure of such information limit the employee's employment opportunities, tie him to a particular employer, and weaken his bargaining power with that employer. Such restrictions interfere with the movement to the job in which he may most effectively use

his skills. They inhibit an employee from either setting up his own business or from adding his strength to a competitor of his employer, and thus they diminish potential competition. Such restrictions impede the dissemination of ideas and skills throughout industry. The burdens which they impose upon the employee and society increase in proportion to the significance of the employee's accomplishments, and the degree of his specialization.

"On the other hand, restrictions upon an employee's disclosure of information which was developed as a result of the employer's initiative and investment, and which was entrusted to the employee in confidence, are necessary to maintenance of decent standards of morality in the business community. Unless protection is given against unauthorized disclosure of confidential business information by employees, employee-employer relationships will be demoralized; employers will be compelled to limit communication among employees with a consequent loss in efficiency; and business espionage, deceit, and fraud among employers will be encouraged." *Winston Research Corp. v. Minnesota Min. & Mfg. Co., supra* at 137-138.

This Court's reference to the high cost of encouraging piracy of business and trade secrets is particularly appropriate in light of Appellants' conduct and relevant California law. Former business associates "dilute the value" of precedents in their favor "by engaging in tactics repugnant to common ethics." Hays, *op. cit. supra* at 51. Thus, a former employee who felt that his conduct was protected by the California Supreme Court's decision in *Aetna Bldg. Maintenance Co. v. West,* 39 Cal. 2d 198 (1952), had a rude awakening when the District Court of Appeals held that the normal rules of the weighing game do not apply when equity has been diluted by sharp practice and affirmed an order granting injunctive relief:

"There is no statement in the *Aetna* case to the effect that where fraud, deceit, breach of contract and deception are present, as they are so present in the case at hand, the business of plaintiff is open to invasion on the part of a former employee and a scheming entrepreneur." *Southern Cal. Disinfecting Co. v. Lomkin, supra* at 53.

Consider for a moment the conduct of the scheming entrepreneur who has brought this appeal. Robert E. McDonough breached his contract with Respondent after nine months of successful operations by refusing to pay his seven percent override, but waited more than a year before attempting to "rescind" that contract (I R. 26-29; 56-57). After his breach, but before "rescission", he continued to advertise his membership in the Snelling system (II R. 37:9-38:7) and attend Respondent's management seminars (II R. 168:4-169:7). While he was actively negotiating to obtain a more favorable contract, McDonough was training counselors so that he could open a San Bernardino office in competition with Snelling's existing licensee (II R. 41:15-25; 282:15-285:1). Franchisees can be protected and competition encouraged without rewarding his freebooting free enterprise.

## III. THE DISTRICT COURT FOLLOWED ACCEPTED EQUITABLE PRINCIPLES AND ACTED WITHIN THE LIMITS OF ITS DISCRETION IN GRANTING INJUNCTIVE RELIEF.

### A. A District Court Has Discretion to Grant Injunctive Relief When a Controversy Presents Grave and Difficult Questions of Law and Fact and Preservation of the Status Quo Will Minimize Possible Injury.

If we have discussed the legal and factual issues raised by this action in far more detail than seems warranted, in an interlocutory appeal from an order granting a preliminary injunction, it is because Appellants have insisted upon treating the proceedings below as a final adjudication of the merits of Respondent's case. Appellants seem to

forget that this is an interlocutory appeal in which particular standards are to be applied in determining the correctness of a decision below. In fact, their brief says nothing at all about the basic rules governing appeals from orders granting preliminary injunctions.

A plaintiff seeking a preliminary injunction is not required to prove conclusively that the defendant has no defenses and that he will prevail at trial. It is sufficient if a plaintiff, in his application for injunctive relief, raises grave and difficult questions of law and fact. If he has done so, the court's discretion should be exercised in his favor so that the *status quo* will be preserved until the merits of his case, and the merits of any defenses, can be tested at trial. As Judge Stephens observed in *Ross-Whitney Corp. v. Smith, Kline and French Labs.*, 207 F 2d 190, 194 (9th Cir. 1953):

> "[T]he ruling on the motion for a preliminary injunction leaves open the final determination of the merits of the case. However . . . it is the rule in this circuit that the district court has not abused its discretion if 'the possibility that the plaintiff may make out a case upon the merits' has been established. *Northwestern Stevedore Co.* v. *Marshall,* 9 Cir. 1930, 41 F. 2d 28, 29."

Judge Pope expanded on the same theme in *Burton* v. *Matanuska Valley Lines,* 244 F. 2d 647, 650-651 (9th Cir. 1957):

> "[An interlocutory] injunction preserves the *status quo* and protects plaintiff from irreparable injury during the pendency of a suit until such time as the court may adjudge and finally determine the rights of the parties. Necessarily the court may pre-suppose that in the case at bar it *may* turn out that the plaintiff will ultimately lose. Thus the court *may* finally find the facts against the plaintiff who procured the temporary injunction. But this *possibility* does not compel a

denial of a temporary injunction if proper showing be made therefore; otherwise a court, which necessarily requires time to reach a final determination, would have no way to protect a party who may suffer irreparable loss if the *status quo* is not preserved. Without this power to issue interlocutory injunction, courts would be unable to make their final judgments effective, for the very right to be protected, or the subject of the action itself, might be destroyed irreparably during the period required to arrive at an ultimate determination of the action.

"And just as a court must of necessity obtain time in which to determine which party is right upon the facts, so in a substantial number of cases time is necessarily required to resolve grave, difficult and complicated questions of law. If, in such a case, it is ultimately decided that the party who obtained the temporary injunction cannot win, that in itself does not demonstrate that it was wrong to issue the injunction. For a considerable latitude of judicial discretion is allowed the trial court in its determination whether the situation requires a preservation of existing conditions through an injunction *pendente lite*, and [the appellate court's] more deliberate conclusion that the ultimate decision must be against a permanent injunction does not in itself warrant a reversal of the interlocutory order. [Emphasis the court's]

* * *

"And in *Ohio Oil Co. v. Conway*, 279 U.S. 813, 815, 49 S.Ct. 256, 73 L.Ed. 972, the Supreme Court . . . said: 'Where the questions presented by an application for an interlocutory injunction are grave, and the injury to the moving party will be certain and irreparable, if the application be denied and the final decree be in his favor, while if the injunction be granted the injury to the opposing party, even if the final decree

be in his favor, will be inconsiderable, or may be adequately indemnified by a bond, the injunction usually will be granted.' "

It is equally well settled in this Circuit that the granting of a preliminary injunction is largely within the discretion of the District Court. Absent a manifest abuse of discretion, its decision will not be overturned on appeal. *B. W. Photo Utilities v. Republic Molding Corporation,* 280 F. 2d 806, 807 (9th Cir. 1960); *Burton v. Matanuska Valley Lines, supra* at 650-651; *Alfa Distributing Co. v. James Barclay and Co.,* 215 F. 2d 510, 511 (9th Cir. 1954); *Ross-Whitney Corp. v. Smith Kline and French Laboratories, supra* at 194 (9th Cir. 1953).

Appellants have not argued — because they cannot argue — that this case fails to present grave and difficult questions of law and fact. The vigor with which Appellants have argued their case and the skill and energy exercised in briefing this appeal attest to the gravity and difficulty of the issues presented. The time and attention which the District Court devoted to the proceeding below indicates that it gave serious consideration to the legal and factual issues presented and was careful to avoid any abuse of discretion.

**B. No Equitable Considerations Exist Which Should Have Precluded the District Court From Granting Injunctive Relief.**

Appellants advance three makeweight arguments to support the proposition that equitable principles dictate denial of injunctive relief, contending that the Snelling agreement is: 1) an unenforceable personal service contract; 2) the product of fraud and deceit; and, 3) "unconscionable" (App. Br. 51-58). Two of these can be dealt with summarily. The third requires somewhat more attention because Appellants attack the entire Snelling system and seek to enlist this Court's aid in destroying it.

Assuming for the sake of argument that a California court would find the Snelling franchise to be a "personal

service contract'', it would still grant injunctive relief, just as it has in numerous trade secret cases which clearly involved personal service contracts. e.g., *Gordon v. Landau,* 49 Cal. 2d 690 (1958); *State Farm Mutual Ins. Co. v. Dempster,* 174 Cal. App. 2d 418 (1959). Such relief would also be granted under Pennsylvania law, which the parties have chosen to govern their contract. *Pennsylvania Funds Corp. v. Vogel,* 399 Pa. 1 (1960). The proprietary of enforcing an express or implied covenant not to compete when affirmative performance of a personal service contract cannot be compelled has been recognized since the Chancellor silenced Madame Wagner. *Lumley v. Wagner,* 42 Eng. Rep. R. 687 (1852); 4 Witkin, SUMMARY OF CALIFORNIA LAW 2816-2817 (1960).

Respondent's ''fraud'' consists of its alleged failure to tell Robert E. McDonough that he could not use ''Snelling & Snelling'' as an integral part of his licensed name in California although he could: 1) identify himself as ''a member of Snelling & Snelling'' in all of his advertising; 2) use the registered Snelling trademarks; and, 3) obtain a telephone listing and place telephone advertising under the name ''Snelling & Snelling''. (II R. 37:7-38:6; 260:3-262:25). As we have already noted, burdensome restrictions on use of the Snelling name in telephone advertising occurred well after execution of Appellants' franchise agreement (II R. 31:12-24; 263:16-264:2).

Assuming that Respondent's officers failed to tell McDonough of the California problem, the possibility of incidental limitations on use of the Snelling name is still fully disclosed by Paragraph 1(c) of the license agreement which was reviewed by his counsel (I R. 87; II R. 8:21-9:8). Paragraph 1(c) expressly provides that ''*Licensee shall use only the name Snelling and Snelling . . . unless state law requires other or additional identification.*'' Furthermore, Appellants' first recorded protest against alleged ''fraud'' occurred more than two years after the opening of their office, when Respondent sought

to terminate their franchise for non-payment of overrides (I R. 26, 57).

When Appellants ask this Court to find that the basic Snelling license agreement is "unconscionable," they seek to destroy Respondent's entire business by invalidating similar contracts with more than two hundred-fifty licensees. Such a decision should not be made lightly when the contention that a contract is unconscionable has been raised and fully litigated below. Here, the question should not be reached at all because it was never presented to the District Court, was not mentioned in Appellants' Statement of Points (I R. 146-147), and is barely suggested in the Specifications of Errors (App. Br. 12-13).

Despite Appellants' failure to raise the "unconscionable contract" argument at an appropriate time, it cannot be passed over without comment. Their scattershot attack contains far too many errors and unfounded assertions to go unchallenged. Some of the sections mentioned in this running attack (App. Br. 51-58) have already been dealt with and need not be reconsidered. Several others are of little importance, but a few require particular attention.

*Paragraph 1(d)*

While Paragraph 1(d) gives the franchisee a time limit within which to open his office, there is nothing in the record to indicate that: 1) it is unreasonably brief; 2) it has ever posed a problem for *any* franchisee; or, 3) it has ever been enforced. If it had been questioned below, evidence could have been presented to establish that it poses no hardship.

*Paragraph 2*

While Snelling is given substantial latitude in selecting the time, place and manner of supplemental training, the record amply demonstrates that such training was and is freely given. Respondent's course of dealing with franchisees establishes that Snelling has not sought to avoid

responsibilities to its franchisees, but, instead, has developed comprehensive programs for their benefit (II R. 88:22-89:13; 105:25-107:9; 163:8-171:14).

*Paragraph 4*

The allegedly burdensome reports do permit Snelling to determine whether franchisees are paying their overrides, but serve an equally important function as well. From them, Respondent's headquarters in Pennsylvania can determine strengths and weaknesses in the system and prepare remedial training programs (MM 241-250; II R. 163:18-171:14).

*Paragraph 5*

Although a minimum gross receipts schedule is provided, it is so ridiculously low as to be meaningless. In his first months as a franchisee, Robert E. McDonough's monthly receipts of $5,000.00 were well in excess of the required minimum monthly receipts for his *tenth* year of operations (II R. 22:4-20; Pl. Ex. 2).

*Paragraph 11*

Respondent's "massive powers" in the event of termination are required to protect its interest in trade lists, contacts and goodwill which the franchisees have developed while operating as Snelling representatives. They are no harsher than similar powers approved in *Gordon v. Landau, supra* and *State Farm Mutual Ins. Co. v. Dempster, supra.*

*Paragraph 12*

Appellants' criticism of Paragraph 12 results from a failure to read the typewritten addendum to the Mcdonough agreement, which substitutes a less burdensome provision for the terms of the original form (I R. 24). Although the original Paragraph 12 has not been stricken from the printed agreement, there can be no doubt that the typewritten language was substituted for it if the two provisions are placed side by side.

*Paragraph 14*

Although the provision that a sale of the license must be effected within sixty days of the franchisee's death can probably be avoided if the franchisee incorporates, as he is permitted to do (I R. 25), Paragraph 14 does seem overly restrictive until one remembers that many valid contracts are terminable on the death of a party. The transfer fee is also understandable and reasonable since Snelling must train the new owner and perhaps sustain a loss while he is breaking into the business (II R. 232:1-17).

California's courts have been relatively unreceptive to the notion that parties should be able to escape a contract by arguing that some of its terms are "unconscionable". *Smith v. Mendonsa,* 108 Cal. App. 2d 540, 544 (1952). Similarly, they have consistently favored severing invalid provisions where the contract can be saved by doing so. *Keene v. Hartling,* 61 Cal. 2d 318, 321-324 (1964); *Calvert v. Stoner,* 33 Cal. 2d 97, 104 (1948); *Werner v. Kroll,* 89 Cal. App. 2d 474, 476 (1948); *cf. Zajicek v. Koolvent Metal Awning Corp. of America, supra* at 133.

Appellants have greatly exaggerated the effects of the various paragraphs which they attack and have ignored facts and circumstances which mitigate any burden that some provisions may place upon franchisees. If, however, they are ultimately able to convince the District Court that one or more of these is, in fact, unduly burdensome, Appellants' proper remedy is severance pursuant to Paragraph 16 and not invalidation of the basic Snelling agreement.

### C. The District Court's Finding That Denial of Injunctive Relief Would Cause Irreparable Injury Is Supported by Substantial Evidence.

In the typical California trade secret case, such as *State Farm* or any one of the *Gordon* decisions, *e.g., Gordon v. Landau, supra; Gordon v. Wasserman,* 153 Cal. App. 2d

328 (1957)); *Gordon v. Schwartz,* 147 Cal. App. 2d 213 (1956), injunctive relief has been granted against a former employee who has stolen a few customers. The courts have had little difficulty in finding ''irreparable injury'' where the direct loss to the plaintiff has been small and the total impact upon his business has been minimal.

Here, on the other hand, the substantial direct economic impact upon Respondent and its San Bernardino franchisee has been compounded by the fact that the McDonough rebellion, if allowed to go unchecked, would induce the breach of other franchise agreements. John McBrearty's testimony regarding the substantial loss which Respondent would suffer has already been reviewed in detail (pp. 14-15, *supra*) and need not be reconsidered. In evaluating that testimony, the District Court was impressed by the interest which other franchisees showed in the proceeding below and Elinor Still's use of it as a vehicle to stir revolt within the Snelling system (I R. 130-131; 43:1-46:14; 49:18-25; 72:9-18). Its factual finding of substantial irreparable injury is fully sustained by the record and contains no conclusions which are arguably erroneous.

Little need be said regarding the fact that the District Court placed some reasonable limits on John McBrearty's testimony regarding the nature and source of Respondent's problems with rebellious franchisees and their contribution to probable injury. Appellants have mentioned these limitations in passing (App. Br. 12-13), but have not pressed the contention that they constitute reversible error. Since the question of Respondent's problems with franchisees was explored in some detail, the rejected line of questioning would merely have produced cumulative testimony. A District Court is given wide discretion to exclude cumulative evidence, *Woods v. National Life & Accident Ins. Co.,* 347 F. 2d 760, 766-767 (3rd Cir. 1965); *Gypsum Carriers, Inc. v. Handelsman,* 307 F. 2d 525, 531 (9th Cir. 1962), and did not abuse that discretion here.

## CONCLUSION

Unlike Appellants, Respondent does not believe that this Court must prejudge all of the difficult legal and factual questions which will arise at trial. By definition, the decision of the District Court is a preliminary one which was made to preserve the *status quo* pending trial and not a final disposition of this controversy. We have discussed basic legal and factual questions at far greater length than would otherwise have been warranted primarily because Appellants have treated the proceedings below as a final adjudication of those issues.

Unlike Appellants, we urge no departure from established rules governing review of findings of fact and conclusions of law. Factual findings should be upheld unless they are clearly erroneous. *Bloom v. United States, supra.* Similarly, a District Court's interpretation of the law of the state in which it sits is entitled to great weight. *Bellon v. Heinzig,* 347 F. 2d 4, 6, Note 3 (9th Cir. 1965).

With these principles in mind, there can be no real question regarding the propriety of the decision below. When the merits of the controversy are reached and the record is viewed objectively, there is also no room for doubt that Respondent has protectable trade secrets and can enforce the restrictive covenant.

For the reasons set forth above, we respectfully request that the District Court's decision be affirmed.

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& Callister

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I certify that, in connection with the preparation of this brief I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit and that, in my opinion, the foregoing brief is in full compliance with those rules.

RICHARD L. NOBLE

*Attorney*

NO. 22671

IN THE UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

---

ROBERT E. McDONOUGH, et al.,

Appellants,

-vs-

SNELLING & SNELLING, INC.,

Appellee.

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ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE CENTRAL DISTRICT OF CALIFORNIA

---

# APPELLANTS' REPLY BRIEF

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APPELLANTS' REPLY BRIEF

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Respondent's brief has been prepared with zeal and skill. In its application of these two admirable qualities, however, Snelling has frequently sacrificed the factual accuracy and precise legal exposition which are the touchstones of fair appellate advocacy. Appellants will endeavor here to expose and explore representative examples of these sacrifices.

## I FACTUAL DISTORTIONS IN RESPONDENT'S BRIEF

### A. Scope of Hearing and Scope of Appeal Trade Secrets

Snelling states (Resp. Br. 10) that the hearing "was broadened to include the question of whether

Snelling possesses protectable trade secrets when Appellant sought to establish that no such trade secrets exist." A review of the record herein reveals that the McDonoughs (hereinafter referred to in the singular) made at least two forceful attempts to keep the trade secret question out of the hearing (II R. 9:9-11:18; 23:7-27:1, with particular emphasis on 26:12-27:1).[1] Snelling produced the manuals in the courtroom and caused them to be received as evidence in the case. In addition, in its Memorandum of Points and Authorities in Support of the Temporary Restraining Order and Order to Show Cause Re Preliminary Injunction, Snelling introduced the "trade secret" issue into the case (I R, 35:17-36:20; 38:28-39:12;66:2-67:14). Clearly, from the beginning, Snelling relied on a "trade secret" argument in seeking the preliminary injunction - the issue appears in the first papers it filed.

In defending against the application for preliminary injunction, when the contention of "trade secrets" had been raised in Snelling's moving papers, as the source and the training manuals (identified in the moving papers of the "trade secrets") had been received in evidence, McDonough had no choice but to endeavor to rebut this contention in every possible way. But the suggestion by

* 1 Appellants have adopted Respondent's system of record references to reduce confusion.

Snelling that it was McDonough who broadened the hearing to pick up the trade secret issue, constitutes a gross misrepresentation of the record in this case.

As a further examination of Snelling's moving papers discloses, the preliminary injunction was sought on three bases: 1) trade secrets, 2) trade names, and 3) restrictive covenant. McDonough did not see, at the time the hearing commenced, at any time during the hearing, nor in the proceedings before this Honorable Appellate Court, how the trade secret and trade name issues have had any pertinency whatsoever. Neither the injunction sought nor the injunction granted directed McDonough to discontinue his use of the alleged trade secrets and trade name in San Bernardino County - it simply prevented him from "opening an employment agency office in the City of San Bernardino" ( I R 44:2-13; 95). Since McDonough was free, whether the injunction were granted or not, to utilize the alleged trade secrets and utilize the "S & S" name, and use them in San Bernardino County (albeit from his Riverside Office if the injunction were granted) it is impossible to see how the injunction could be predicated upon such foundations. The only relief sought by Snelling was to stop McDonough from opening and operating his office in San Bernardino - the only conceivable legal basis for the court's doing so would be the restrictive covenant in the license and franchise

agreement entered into between the parties.

Nevertheless, the trial court, in Finding of Fact 14 (I R 126), Finding of Fact 27 (I R 130), Conclusion of Law 3(a) (I R 133-134), set forth its reliance upon the "trade secret" foundation for its order granting the preliminary injunction. Appellant submits this was an irrelevent and immaterial concept, as hereinabove explained, since McDonough remains free today to utilize in San Bernardino any and all of the claimed trade secrets of Snelling, providing only he does it from his Riverside office.

Irreparable Injury

Snelling asserts (Resp. Br. 10) that at the last two hearings before the trial court "the parties broadened its scope to include a reexamination of the trade secret question and the propriety of any order enjoining Appellants from operating a personnel agency in San Bernardino." This is certainly not true. Snelling repeatedly and successfully objected to lines of questioning of its witness McBrearty which were being pursued by McDonough (II R. 235:13-236:11; 236:24-237:6; 238:8-19; 240:17-241:23; 243:7-17; 249:5-250:12; 278:23-279:7) upon the basis that these hearings involved only the motions for supersedeas and to suspend injunction pending appeal. If, as Snelling suggests, the last two hearings constituted a reexamination of the trade secret and irreparable

injury questions, McDonough was severely limited and restricted in his efforts to introduce relevant testimony pertinent to those issues. Additionally, of course, the offered testimony bore on McDonough's Motion for Supersedeas as tending to show that the Riverside franchisee was not the serious threat to Snelling, and that the national franchisor had so many other problems with its franchisees that the damage forecast by McBrearty would have been produced by other causes and that, therefore, the supersedeas should have been granted, permitting McDonough to maintain the San Bernardino office. Additionally, the lines of questioning being pursued by McDonough were relevant and material on his motions to amend and supplement findings of fact and conclusions of law (I R. 104-11[6]) and his motion to suspend injunction pending appeal (I R 102-103), both of which were being heard at the same time (II R 129:4-13; 286:17-24).

No doubt, Snelling would prefer that these hearings of October 31, 1968, and November 17, 1968, be construed by this appellate court as being pertinent to the order granting the preliminary injunction, even though said order was filed October 5, 1967 (I R 95-96), inasmuch as, prior to said hearings, there was absolutely no evidence in the record concerning any prospective injury to its interests, from the opening of the San Bernardino office by McDonough, or otherwise.

Surely, considerable effort has been expended in the District Court and in the parties' appellate briefs, on the "trade secrets" question. Appellant maintains, nevertheless, as he maintained in the District Court, that this appeal can and should be decided on the illegality of the restrictive covenant alone. Among other benefits, such a disposition leaves for the trial on the merits the trade secret issue, a development evidently warmly desired by Respondent (Resp. Br. 62).

B. Other Factual Misstatements

1. Snelling represents (Resp. Br. 2) that its techniques "enable counselors to place all qualified applicants instead of filling only existing 'job orders'". This statement is directly contrary to the testimony of Snelling's number one California franchisee who testified "we work on the basis of whoever comes into our office is placeable somewhere." (II R 96:13-14) and that he recognized that his practices did not conform to the Snelling policy and manual in that regard (II R 121:12-122:11).

2. Snelling would have this Court believe (Resp. Br. 3) that it uses the detailed monthly reports from its franchisees to "solve problems in the reporting office and problems which are common throughout the system." Snelling's manual may so state but the record

is devoid of evidence showing that the detailed monthly reports from the franchisees were actually used for any purpose.

3. Snelling states (Resp. Br. 3) that "there is no evidence to indicate that (its name) lacks substantial value" in California. There was positive and uncontradicted direct evidence from McDonough (II R 35:2-37:1) that the name was of no use to him when he opened the Riverside - San Bernardino market, that he could not use it, and for that reason promoted his own S & S name.

4. Snelling has implied (Resp. Br. 3) that out of 500 separate businessmen who have held franchises, only 75 or so have left the system because they were unsuccessful. A more accurate analysis of the record shows that at the time of hearing Snelling had about 275 remaining franchisees (II R 255:16-23), about half of the total franchisees who bought into the system had left it (II R 255:24-256:6), about 70 to 75 of the former franchisees had lost all or substantially all of their investment in the franchise (II R 230:1-19), and that the bulk of the sales and transfers of such franchises occurred because the franchisees were unable to make anywhere near the Snelling projected incomes (II R 233:2-21)

5. Snelling gratuitously asserts (Resp. Br. 4) that McDonough is "prominent among the rebels"

against the national franchisor. No record reference is submitted to support this claim and, in fact, Snelling's officer admitted that he had no reason to believe that McDonough was circulating among any of its franchisees the fact that he is or has withdrawn from the system and rescinded his license agreement. (II R 180:16-21). Obviously, whatever prominence McDonough has achieved has come about through his defense of his means of livelihood against the demands and the litigation commenced by Snelling, and his refusal to knuckle under to the fraud, deceit, and misrepresentation, the unfair and illegal contracts and demands emanating from Philadelphia. He was a passive member of the national franchise system, delinquent only in the payment of his contractual overrides because of numerous prior breaches of the franchise agreement by Snelling, when he was thrust upon the stage of the federal courtroom at Snelling's behest. Prominence, like beauty, probably exists in the eye of the beholder - but to justify the assertion of its existence in an appellate brief some substance should support the statement. It appears, ~~rather,~~ that this is one of the many unfounded efforts of Snelling to cast an unfavorable aura about McDonough which his acts and conduct do not warrant.

6. Snelling accuses McDonough of seeking to reap the benefit of the Snelling association even while he was refusing to pay his 7 percent overrides (Resp. Br. 5)

Nothing, according to the record, could be farther from the truth. McDonough's straightforward and uncontradicted testimony was that he attempted to promote the use of and capitalize upon the Snelling name until January of 1966 (the first month in which he discontinued paying over-rides) and then ceased the practice because of his inability to advertise in the Snelling name, the inability of his employer contacts to find his office through the medium of the telephone listings, and the resulting confusion and loss of business which ensued (II R 35:7-37:1)

7. Again (Resp. Br. 9 and 10) Snelling charges McDonough with attempting to negotiate a modified contract or other settlement of the dispute with Snelling, without mentioning his San Bernardino plans. While the bare fact is admittedly true, the opprobrium Snelling seeks to attach to it is undeserved. In the first place, there is no evidence whatever that McDonough had any plans regarding San Bernardino until after his receipt of Snelling's notice of intention to terminate of May 10, 1967 (I R 26). This letter informed McDonough that he would be subjected to all of the default provisions of the license and franchise agreement, which included requirements that he turn over all of his business records and books of account, his telephone number and his office space. Clearly, the receipt of this notice necessitated some soul searching on McDonough's part.

His response, the notice of rescission (I R 56-58) if justified and effective, would have severed all future obligations between them. Thus, at this point, there would be no point in McDonough's stating anything of his future plans to Snelling, relative to San Bernardino or anywhere else.

On page two of Snelling's termination letter of July 21, 1967 (I R 28) Snelling reiterated its demands that the default provisions of the license agreement be complied with. If done, this would have effectively removed McDonough from the employment agency business in Riverside. His response did nothing to deceive or mislead Snelling in any way. The first proviso of his settlement offer (I R 61) was that "the license agreement be considered terminated or rescinded and each party will release the other from any and all claims arising therefrom." Even if McDonough planned to open a new personnel agency franchising business in Radnor, Pennsylvania, such intention would hardly be germane to the settlement offer if that initial proviso had been agreed upon. Further, as the sixth condition of the proposed settlement (I R 62), McDonough disclaimed any intention of reserving Riverside as his sole domain under the Snelling system, and proposed that Snelling would be free to sell its franchise to any new purchaser whatever. Under these circumstances, there was no conceivable duty on McDonough's part to

bring his San Bernardino plans to the attention of Snelling.

8. Snelling seeks support for its claims of irreparable injury by the court's taking judicial notice of the fact that other Snelling franchisees were present throughout the protracted hearings (Resp. Br. 15). Appellants have no quarrel with the court taking judicial notice of those matters which it has the capacity to so notice. The transcript reference given by Snelling for the above statement, however, refers only to certain unidentified persons who appeared at the first hearing on September 27, 1967. How the court could divine the identity of the spectators in the courtroom, let alone take judicial notice that they were other Snelling franchisees (with the exception of Mr. La Perch who testified and identified himself as such) is beyond understanding. The fact is that except for the VanTilbergs (the Snelling San Bernardino franchisee) there was no other franchisee present in the courtroom at any time, or representatives of such franchisees, except those who were named as defendants in the law suit. That portion of Finding of Fact 28 (I R 131:5-10) is without evidentiary support.

9. Again, on the threat of irreparable injury, Snelling seeks support in McDonough's discussion of the San Bernardino situation with other Snelling

franchisees at a meeting of the National Employment Association (Resp. Br. 16). This discussion occurred after the court had issued its order granting the preliminary injunction and could hardly have been considered by the court in arriving at that decision. Furthermore, teh San Bernardino situation had not been "well advertised throughout the system" as stated by Snelling inasmuch as the evidence was that none of the franchisees McDonough talked to were even aware of an injunction being sought against his franchise (II R 271:2-4; 11-14).

## II MISCONCEIVED ARGUMENT IN RESPONDENT'S BRIEF

### A. Restrictive Covenants, Public Policy and Conflicts

#### The Ury Decision

Snelling argues (Resp. Br. 35) that "few bodies of law have changed more rapidly then 'conflicts during the years since 1924" and asserts a belief that the Ury v. Jewelers Acceptance Corp. (1964) 227 Cal App 2nd 11, decision exemplifies a change in the "conflicts" rules pertinaing to contractual choice of law versus forum public policy. Sneling demonstrates a slavish attachment to Ury (I R 69, 71-74, 135-136, Resp Br. 20, 22, 26-30, 35) which permits it to overlook completely the true thrust of the decision. Ury is a usury case. Conflicts questions in usury cases were traditionally decided on the classical factor of place of contracting, place of performance

(Terry Trading Corp v. Barsky (1930) 210 Cal 428, 433-434; Kraemer v. Coward (1934) 2 Cal App 2nd 506, 508-511;). Indeed, the Ury court itself based its decision in large measure on these same factors (pp. 16-18, Headnotes 1, 2, 3, and 6). Neither Terry nor Kraemer even mentioned public policy in the determination of the conflicts issue there. And Ury does not downgrade forum public policy as a determining consideration in the conflicts cases. Ury says:

> "The law of conflicts, however, is in a condition that is by no means static. Strong public policy of the forum, which always has been a consideration, is surely no less regarded now." (p. 20 - emphasis supplied)

Snelling's claims for Ury will not withstand critical examination.

There has been no change in the concept that the forum can and must disregard the choice of law of the parties in those instances where the law so chosen flies directly in the face of settled forum public policy. In Appellants' Opening Brief (pages 17-27) a host of judicial decisions in California and elsewhere are discussed which propound the points (1) that in California as in other jurisdictions, the public policy against restrictive

covenants is settled; (2) that in such jurisdictions, contracts in violation of the settled public policy are invalid; and (3) that settled public policy in a jurisdiction is a dominating factor in the conflicts of law field sufficient to warrant a disregard of the choice of law of the contracting parties. Snelling has been unwilling or unable, or at least disinclined, to devote even a single line in its brief, to rebut, disparage or distinguish, in any fashion, the rules these cases stand for, with the exception of the dust-catching appellation given this court's decisions in Davis v. Jointless Fire Brick Co. (1924) 300 F. 1 (Resp Br. 35). McDonough has cited decisions in 1948, 1954, and two in 1965 which cited Davis with approval (App. Op. Br. 24-25). This certainly should have vacuumed up a bit of the four decades of dust Snelling observed in its inspection of the decision. Snelling looks, but it will not see.

The Business and Professions Code Sections

Instead, Snelling represents that Section 16600 of California's Business and Professions Code "is honeycombed with judicially created exceptions" (Resp. Br. 31). While $1,500,000.00 per year in overrides is a strong motivation to keep a franchise system intact, it will not justify such a sweeping generalization.

It is first noted that the legislature

itself provided the only exceptions (Sections 16601 and 16602) to the basic prohibitory statutory provision (Section 16600).

Secondly, in the decisions referred to by Snelling, the courts did not honeycomb Section 16600 with exceptions but merely declared, in answer to contentions of parties before them that certain agreements had the effect of restraining them from "engaging in a lawful profession, trade, or business" that they did not really do so. For example, in Gordon v. Landau (1958) 47 Cal 2nd, 690, at page 694, the Court states:

> "It clearly appears from the terms of the contract that it did not prevent defendant from carrying on a weekly credit business or any other business."
> (Emphasis supplied)

Again, in Great Western Distillery Products v. John A. Wathen Distillery Co. (1938) 10 Cal 2nd 442, at page 446 the Court explains:

> "... Both the purpose and effect of the contract are not to restrict the sale of the defendant's receipts, but to create an instrumentality by which the receipts will be exploited and sold. The contract does not restrain anyone from exercising a

trade or business of any kind within the purview of Section 1673 of the Civil Code." (Emphasis Supplied)

Blank v. Palo Alto - Stanford Hospital Center (1965) 234 Cal App 2nd 377, involved a question of whether a hospital could properly enter into an exclusive contract for the operation of its x-ray diagnostic facility, the provision for which was required by the California Administrative Code. The opinion deals not with Sections 16600 et seq. At pages 388-389 of the opinion, the court explained in substantial detail why the method selected was a proper exercise of discretion. Appellant there was not a party to the contract in question and could freely practice his profession, in all its aspects, at any place other than the defendant hospital. As stated, the basis for the decision was far removed from any consideration of the statutory language of the provisions of the Business and Professions Code involved in this case.

Boughton v. Socony Mobil Oil Co. (1965) 231 CA 2nd 188 involved the construction of a condition subsequent in a deed of real property:

"The single restriction is imposed, not personally on plaintiffs restraining them from engaging or carrying on any profession, trade or business but,

> on the use of the land upon which they as grantees are barred merely from selling petroleum products and then only for a limited period of time." (Page 190)
>
> "While the cases are uniform in refusing to enforce a contract wherein one is restrained from pursuing an entire business, trade or profession, as falling within the ambit of Section 16600 (citations), where one is barred from pursuing only a small or limited part of a business, trade, or profession, the contract has been upheld as valid." (Page 192)

King v. Gerold (1952) 109 CA 2nd 316 dealt with an agreement which Snelling characterizes (Resp. Br. 34) as one which restrained trade and did not come within the exceptions enumerated in Sections 16601 and Section 16602. Of course, not every contract which restrains trade in the slightest degree is prohibited by Section 16600. As the statute makes plain, it is only those contracts by which one is "restrained from engaging in a lawful profession, trade or business of any kind" which are unlawful. In the King case the court notes this distinction:

> "Appellant is not (by the agreement) prohibited from carrying on his lawful business of manufacturing trailers but is barred merely from manufacturing and selling trailers of the <u>particular design and style invented by respondent</u>" (Emphasis Supplied)

The final judicial honeycomb found by Snelling is <u>Bay Area Painters and Decorators Joint Committee v. Orak</u> (1951) 102 Cal App 2nd 81. Sections 16600-16602 do not appear in the opinion. Appellants submit that none of these cases constitute a "judicially created exception" to Section 16600 of the Business and Professions Code. Two of the decisions do not discuss the statutory provision at all. The other four simply find that four contracts that impose an extremely slight restraint upon the complaining party did not <u>prevent</u> him from engaging in whatever business, trade or profession he chose. Contrast such provisions with the restraints in the Snelling franchise:

> "Licensee shall not thereafter engage ... in a similar business to that licensed and established hereunder ..." (Paragraph 8(b) - I R 22)

"Licensee may be enjoined from any continued operation of Licensee's business ..." (Paragraph 11(g) - I R 21)

Two additional incomprehensible propositions advanced by Snelling are those (Resp. Br. 36) suggesting that the default provision of the franchise agreement contemplates a transfer of goodwill bringing the covenant within the exception of Section 16601, and its conclusion that "here, the entire business has been created by the franchisor and is operated by the franchisee in partnership with the national organization".

The thought behind the exceptions afforded by Section 16601 is rather obviously that one should not be allowed to sell for a valuable consideration the goodwill of his business (whether through a sale of the business itself, a sale of corporate shares, or sale by the corporation) and then act in direct derogation of the sale made and continue to utilize the goodwill asset for himself.

To equate the circumstances contemplated by Section 16601 with the imperious demand of the franchisor here is an impressive deductive feat but one devoid of the usual reasoning process that goes with deduction. Section 16601 deals with one who sells goodwill. The proposed acquisition of the goodwill of appellants' business by

the default process is as far removed from any normal concept of a free bargain and sale of goodwill as any transaction that can be imagined.

Similarly, for Snelling to claim that the entire business has been created by and that it has operated in partnership with its franchisee is to disregard whose business assets are under discussion. The goodwill of the Riverside franchise was created by McDonough. The Snelling name was nothing when he came to Riverside and every asset of the franchise office in Riverside has been produced by the time, energy and capital of Robert E. and Elsa McDonough, and their employees.

Paragraph 9 of the license agreement (I R 21) promptly derails Snelling's inference that it was in a ~~partnership~~ with its franchisee which, being dissolved the default brings the transaction within the exception of Section 16602. It states in part:

> "Snelling shall not be liable for any such expenses, taxes, levies or disbursements otherwise paid or incurred in connection with the establishment and maintenance of the aforesaid business, and licensee agrees to indemnify and hold Snelling harmless from any and all claims, suits, demands or other causes of action,

including reasonable attorneys fees and expenses in defending the same, which may arise or be asserted against Snelling by reason of the operation of licensees business or by reason of licensees' use of Snelling's name. In granting this license Snelling does not authorize or empower licensee ... to hold himself out as a general or special agent, officer, director, or partner of Snelling."

B. Unconscionability of the Contract

Snelling seeks to avoid the evaluation of the unconscionable nature of its contract by stating that the question was never presented to the District Court (Resp. Br. 58). While not dwelt on at length, Appellants' points and authorities in support of their Motion for Supersedeas and to Suspend the Injunction Pending Appeal contained the point of law that:

"Equity does not enforce unconscionable bargains and specific and injunctive relief will be denied on that ground alone." (I R 100: 29-31)

The very same decision of the Court of Appeals

for the Third Circuit of Campbell Soup Co. v. Wentz (1948) 172 F 2nd 80, discussed at pages 52 and 58 of Appellants' Opening Brief, was cited as authority for that point of law in the District Court.

In its effort to ameliorate the burdensome provisions of its license and franchise agreement as discussed by McDonough (App. Op. Br. 53-58), Snelling relies on suggestions that the criticized contractual provisions have not in fact been troublesome to appellants or other franchisees, that Snelling has not exercised its right under the agreement in some particulars, and that in the performance of the contracts, strict adherence to the provisions has not always been required by Snelling (Resp. Br. 58-60). This begs the question posed by Campbell supra, where the court withheld the aid of equity on the basis of the content of the agreement itself, without regard to the performances under it by the contracting parties, in this language:

> "We think it is too hard a bargain and too one-sided an agreement to entitle plaintiff to relief in a court of conscience."

C. Trade Secrets

In a recent pleading case, testing the sufficiency of a complaint against a demurrer, Justice Hufstedler, of California's District Court of Appeal for

the Second District, (Diodes, Inc. v. Franzen (1968) 260 ACA 241) held that in order to plead adequately a cause of action for protection against the use or disclosure of a trade secret, one must plead facts showing (1) the existence of subject matter which is capable of protection as a trade secret; (2) that the secret was disclosed to the defendant under circumstances giving rise to a contractual or other legally imposed obligation on the part of the disclosee not to use or disclose the secret to the detriment of the discloser; and (3) if the defendant is an employee or former employee of the plaintiff the facts alleged must also show that the public policy in favor of the protection of the complainant's interest in maintaining the secret outweighs the interest of the employee in using his knowledge to support himself in other employment. (Page 247) Presumably, these same elements would have to be proven in order to establish a prima facie case for the protection of trade secrets. The appellate court affirmed the trial court's dismissal of the action essentially upon the basis that plaintiff failed "to plead facts showing that it ever had any trade secret to protect", and that the complainant should "describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade, and to

permit the defendant to ascertain at least the boundaries within which the secret lies." (Page 250)

Appellant faces the same dilemma Justice Hufstedler encountered in evaluating the complaint in Diodes. After four days of hearings before the District Court, after studying the 63 pages of Respondent's Brief, after comparing the Snelling manual to the others introduced in evidence herein, he is yet unaware of any aspect of the Snelling system which is novel, of unique value, or secret. That its training is helpful, is not denied. That its manuals are useful, as are the others reviewed, is conceded. But he has been led to no process, no method, surely no device or machine, nor any unique or novel business idea or concept in which Snelling has or could have acquired a property interest under the trade secret doctrine.

In this respect, Snelling's reliance on Ernst and Ernst v. Carlsen (1966) 247 Cal App 2nd 125 (Resp. Br. 49) seems misplaced. There the proceedings were to enjoin Carlsen "from unfairly interfering with the advantageous business relations of Respondents and their customers." (Page 127) This involved no aspect of competition between respondents, a nationwide accounting firm, and Carlsen, a former employee. Rather, Carlsen sought to disrupt the advantageous business relationship between the accounting firm and one of its clients,

contending the firm had improperly given capital gains treatment to certain transactions rather than ordinary income. The injunction merely silenced the employee and prevented a continuation of his efforts to cause a breach between the accounting firm and the client. While Carlsen continued to work in the area, and solicited this particular client, among others whose files he had handled while working for his former employer, this aspect of his conduct was not involved in the case on appeal. The extensive quotation from the decision, (Resp. Br. 50) appears to be simply another manifestation of Snelling's predilection toward citation of case authority where no factual similarity exists.

## CONCLUSION

The facts in this case show the value of the doctrine of stare decisis. McDonough's counsel's letters to Snelling show his reliance upon the state of the law as it existed under Davis v. Jointless Fire Brick Co. (1924) 300 F. 1 and Sections 16600-16602 of California's Business and professions Code.

The very purpose of the doctrine is to enable business and professional men to plan and govern their affairs under a discernible rule of law.

The dangers of tampering with the doctrine have been most expressively demonstrated in the calamitous events which have befallen Appellant to this point in

the case.

This Court's reversal of the order of the District Court would restore a measure of permanence and order to an admittedly complex socio-economic problem.

Respectfully submitted,

HENNIGAN, BUTTERWICK, HANING & DUDA

By [signature]
Attorneys for Appellants

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ERRATA IN APPELLANTS OPENING BRIEF

| | |
|---|---|
| Page 8, Line 26: | Change Reporters' Transcript Reference to: "(255-256)" |
| Page 15, Line 20: | Between the words "to" and "the" insert the following: "in. They would be more appropriately addressed to" |
| Page 50, Line 16: | At end of line, insert the following: "(R 115/20-25; 116/10-16; 117/19-25; 120/2-15)" |
| Page 62, Line 15: | Change "4" to "Y" |

CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19, and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

J. D. BUTTERWICK
ATTORNEY

CERTIFICATE OF SERVICE BY MAIL

I, J. D. BUTTERWICK, certify that I am the attorney for appellants in this action, and that I served three copies of the above Appellants' Reply Brief by mail on the attorney for appellee.

DATED: August 1, 1968.

J. D. BUTTERWICK

No. 22,675

# United States Court of Appeals
## For the Ninth Circuit

J. BRYANT KASEY and MARYANN KASEY,
*Appellants*,

vs.

COMMISSIONER OF INTERNAL REVENUE and SECRETARY OF THE TREASURY OF THE UNITED STATES,
*Appellees*.

On Appeal from the Order of the United States District Court for the District of Nevada

## BRIEF FOR THE APPELLEES


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declaratory judgment that the Internal Revenue Code is unconstitutional.

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## STATEMENT OF THE CASE

This appeal involves federal income taxes. On August 11, 1967, the taxpayers, J. Bryant Kasey and Maryann Kasey, filed a complaint in the United States District Court for the District of Nevada demanding money due for services and a permanent injunction. (R. 2-4.) The complaint demanded (1) the sum of $3,960 as compensation for keeping tax records and filing tax returns, (2) a permanent injunction against enforcement of the Internal Revenue Code of 1954 because it allegedly violates the Fifth and Thirteenth Amendments to the Constitution, and (3) a declaratory judgment that the Internal Revenue Code of 1954 is unconstitutional. (R. 2-4.) On November 13, 1967, the defendants filed a motion to dismiss taxpayers' complaint because the District Court lacked jurisdiction over its subject matter. (R. 22-23.) On December 29, 1967, the taxpayers filed an answer and memorandum of points and authorities in opposition to the motion to dismiss taxpayers' complaint. (R. 33-38.) The order of the District Court, without opinion, granting the motion to dismiss, with prejudice, was entered on January 19, 1968. (R. 41.) Within sixty days thereafter, taxpayers filed a notice of appeal from this order on February 13, 1968. (R. 42.) Jurisdiction is conferred on this Court by 28 U.S.C., Section 1291.

## ARGUMENT

### I

### THE PROVISIONS OF THE INTERNAL REVENUE CODE REQUIRING TAXPAYERS TO KEEP RECORDS AND FILE TAX RETURNS ARE CONSTITUTIONAL

Taxpayers' primary claim is that they are entitled to compensation at the rate of twenty dollars per hour for the time they used to keep tax records and prepare their own tax returns. (R. 2, 5.) They contend (Br. 4-5) that Sections 6001, 6011, and 6012 (Appendix, *infra*), which, together with the criminal penalties, Sections 7203 and 7210, require the keeping of records and filing tax returns, violate the Fifth and Thirteenth Amendments to the Constitution (Appendix, *infra*), which forbid, respectively, a person being compelled in any criminal case to be a witness against himself and involuntary servitude. Such provisions for record-keeping and returns are essential to the self-assessment method on which the federal income tax is based. Similar statutes have been a part of the tax laws since the enactment of the original Income Tax Act of 1913, c. 16, 38 Stat. 114, 166, Section II D. They have been repeatedly upheld by the courts against constitutional attacks such as taxpayers make here. *United States v. Sullivan*, 274 U.S. 259 (1927); *Brushaber v. Union Pac. R.R.*, 240 U.S. 1 (1916); *Erwin v. Cranquist*, 253 F. 2d 26 (1958), certiorari denied, 356 U.S. 960 (1958); *Abney v. Campbell*, 206 F. 2d 836 (C.A. 5th, 1953), certiorari denied, 346 U.S. 924 (1954); *Kellems v. United States*, 97 F. Supp. 681 (Conn., 1950). Cf. *Shinder v. Commissioner*, decided May 17, 1968 (21 A.F.T.R. 2d

1378), where this Court recently rejected a broad constitutional attack on the Internal Revenue Code.

The power to require tax returns and the keeping of records is clearly within the provision of Article I, Section 8, of the Constitution (Appendix, *infra),* granting the Congress authority "to make all laws which shall be necessary and proper" for executing the power given to it by the Sixteenth Amendment to lay and collect taxes on income. *Brushaber v. Union Pac. R.R., supra.* Thus, the statutes requiring records and returns are clearly within the conclusion expressed by this Court in *Erwin v. Cranquist, supra* (p. 27):

> The Sixteenth Amendment's grant of power "to lay and collect taxes on incomes", gave Congress power to accomplish that end by "all means which are appropriate, which are plainly adapted to that end, and which are not prohibited." *McCulloch v. Maryland,* 4 Wheat. 316, 421, 4 L. Ed. 579. * * *

The contention that the Internal Revenue Code violates the Thirteenth Amendment prohibition against involuntary servitude is therefore without foundation. In *Abney v. Campbell, supra,* the court rejected a Thirteenth Amendment argument that the burden of keeping records required of employees in withholding taxes on wages created a servitude (p. 841):

> The specification, that the act violates the Thirteenth Amendment by imposing involuntary servitude upon an employer of domestic servants, seems to us far-fetched, indeed frivolous. There is

> no suggestion, in the law, of the imposition of a servitude, there is merely a requirement that as to the tax due by domestic employees on account of wages paid them by their employer, the employer must withhold the amount fixed by law and account it to the United States. The enforcement of the act is not the imposition of a servitude. It is the collection of a tax and the enforcement of an obligation, which under settled federal law appellants may be and are lawfully subjected to. From our holding that the taxes and burdens imposed are valid, it must follow that the enforcement of the law imposing them is not, it cannot be, a violation of the Thirteenth Amendment.

The requirement that a taxpayer file a return of his income does not violate the Fifth Amendment privilege against self-incrimination. In the words of Mr. Justice Holmes in *United States v. Sullivan, supra* (pp. 263-264):

> If the form of return provided called for answers that the defendant was privileged from making he could have raised the objection in the return, but could not on that account refuse to make any return at all. We are not called on to decide what, if anything, he might have withheld. Most of the items warranted no complaint. It would be an extreme if not an extravagant application of the Fifth Amendment to say that it authorized a man to refuse to state the amount of his income because it had been made in crime. But if the defendant desired to test that or any other point he should have tested it in the return so that it could be passed upon. He could not draw a conjurer's circle around the whole matter by his own declaration that to write any word upon the gov-

ernment blank would bring him into danger of the law.

The requirement that a taxpayer keep records which are to be available for inspection by the taxing authorities likewise does not violate the Fifth Amendment privilege against self-incrimination. In *United States v. Bouschor,* 200 F. Supp. 541, 542 (Minn., 1961), affirmed, 316 F. 2d 451 (C.A. 8th, 1953), the court stated:

> The documents which the Government seeks to examine in the present proceeding are the taxpayer's records relating to his income tax liability for the years in question. Records of this nature are required to be kept pursuant to 26 U.S.C. § 6001. The requirements of this Section, together with the authorization given the Commissioner to examine such records under Section 7602, do not violate the taxpayer's rights under either the Fourth or the Fifth Amendments.

See also *Shapiro v. United States,* 335 U.S. 1, 32-34 (1948); *United States v. Murdock,* 284 U.S. 141 (1931); *Falsone v. United States,* 205 F. 2d 734, 739 (C.A. 5th, 1953).

Taxpayers claim that they are entitled to compensation at the rate of twenty dollars per hour for keeping records and filing tax returns as a matter of constitutional right. No statutory or case authority was cited to support this unique theory of recovery. The constitutional argument must be that when a taxpayer is required to render services to his Government in connection with a valid tax law, there is a taking of property without due compensation in viola-

tion of the Fifth Amendment. Such an argument is without merit.

There is not necessarily a "taking" when a citizen is compelled to render services to his Government. For example, a lawyer compelled by the court to defend an indigent client has no constitutional right to compensation. *Wright v. State of Louisiana,* 362 F. 2d 95 (C.A. 5th, 1966); *United States v. Dillon,* 346 F. 2d 633 (1965). A conscientious objector to war compelled to undertake alternate service to the military has suffered no taking of his property. *Roodenko v. United States,* 147 F. 2d 752 (C.A. 10th, 1944).

Even what appears to be a taking of property does not violate the Fifth Amendment if the supposed taking is an exercise of a legitimate governmental power. The police power of a state sustained the destruction of red cedar trees which carried a disease threatening nearby apple trees which were important to the local economy. *Bowman v. Va. State Entomologist,* 128 Va. 351, 105 S.E. 141 (1920). The destruction by the Army of oil terminals near Manila in order to prevent their capture and use by the Japanese was protected by the war power. *United States v. Caltex, Inc.,* 344 U.S. 149 (1952).

The power to tax itself can justify what could otherwise be a taking. The payment of a tax is not a taking without due compensation. *Houck v. Little River District,* 239 U.S. 254, 264-265 (1915). At the same time, statutes requiring the performance of services in connection with a tax have been held valid. Primary among these is the federal withholding tax

system and the burden it places upon employers. *Brushaber v. Union Pac. R. R.,* 240 U.S. 1 (1916); *Abney v. Campbell,* 206 F. 2d 836 (C.A. 5th, 1953), certiorari denied, 346 U.S. 924 (1954); *Kellems v. United States,* 97 F. Supp. 681 (Conn. 1951). Many state statutes requiring services from taxpayers in connection with the payment of a tax have been sustained against constitutional arguments. *Gafill v. Bracken,* 195 Ind. 551, 145 N.E. 312 (1924); *United States Cold Storage Corp. v. Stolinski,* 168 Nebr. 513, 96 N.W. 2d 408 (1959); *Interstate Forwarding Co. v. Vineyard,* 3 S.W. 2d 947 (Tex. Civ. App. 1928), reversed, 121 Tex. 289, 49 S.W. 2d 403 (1932); *Morrow v. Henneford,* 182 Wash. 625, 47 P. 2d 1016 (1935); *State ex rel. Froedtert G. & M. Co. v. Tax Comm.,* 221 Wis. 225, 267 N.W. 52 (1936). These principles have been well settled for many years. Thus, there is absolutely no merit to taxpayers' claim that they are entitled to compensation for services rendered to the Government. Taxpayers' demand for a money judgment failed to state a claim upon which relief could be granted.

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## II

### THE DISTRICT COURT PROPERLY DISMISSED TAXPAYERS' COMPLAINT BECAUSE IT LACKED JURISDICTION

#### A. The suit is against the United States, which has not consented thereto

The District Court below correctly dismissed this suit. Although it is brought, in form, against the Commissioner of Internal Revenue and the Secretary of the Treasury, the suit, in substance, is against the

United States. Congress has not authorized suits against these officers, *eo nomine.*[1] In the words of the Supreme Court in *Blackmar v. Guerre,* 342 U.S. 512, 515 (1952):

> When Congress authorizes one of its agencies to be sued *eo nomine,* it does so in explicit language, or impliedly because the agency is the offspring of such a suable entity.

The suit is accordingly against the United States, which has not consented thereto. The Commissioner of Internal Revenue and the Secretary of the Treasury cannot be sued, merely by their titles, in evasion of the sovereign immunity of the United States. *Thomason v. Works Projects Administration,* 138 F. 2d 342 (C.A. 9th, 1943); *Laughlin v. Harrington,* 256 F. 2d 893 (C.A. D.C., 1958), certiorari denied, 358 U.S. 945 (1959); *New Haven Public Schools v. General Services Admin.,* 214 F. 2d 592 (C.A. 7th, 1954); *Jacobs v. District Director of Internal Revenue,* 217 F. Supp. 104 (S.D. N.Y., 1963); *Film Truck Service, Inc. v. Nixon,* 216 F. Supp. 77 (E.D Mich,, 1963). See also *United States v. Remund,* 330 U.S. 539 ,(1947).

Futhermore, this suit could not be against the incumbents of the offices named in the complaint personally because they were acting properly within the scope of the authority conferred on them by Congress in the Internal Revenue Code. They could not be per-

[1]Federal Rules of Civil Procedure, Rule 25(d), is not *contra* because it is intended to be a "simple procedural rule for substitution" not to be distorted "by mistaken analogies to the doctrine of sovereign immunity from suit". See, Notes of Advisory Committee on Rules, Rule 25, Federal Rules of Civil Procedure (28 U.S.C.A. (1967) Cum. Pocket Part).

sonally liable on the facts alleged in this case. Such a suit would also be a suit against the United States to which it has not consented. *Hawaii v. Gordon,* 373 U.S. 57 (1963); *Larson v. Domestic & Foreign Corp.,* 337 U.S. 682 (1949); *Land v. Dollar,* 330 U.S. 731 (1947); *Holmes v. Eddy,* 341 F. 2d 477 (C.A. 4th, 1965), certiorari denied, 382 U.S. 892 (1965).

**B. The District Court did not have jurisdiction to hear taxpayers' demand for a money judgment**

The taxpayers sued for "the payment to them of the said sum of $3,960.00, plus accumulated, compounded interest of 6%." (R. 2, 4.) The theory behind this demand for payment was not the refund of taxes but that the United States, through implied contract, was under an obligation to pay taxpayers such sum for services rendered.

The services at issue were taxpayers' keeping of records as required by Section 6001 of the Internal Revenue Code of 1954 and the Regulations issued thereunder. Taxpayers also demanded compensation for the time required to prepare the return they were required to file by Section 6012(a)(1) of the Internal Revenue Code of 1954.

The taxpayers allege that jurisdiction to hear this case was conferred upon the District Court by 28 U.S.C., Section 1346(a)(2) (Appendix, *infra*), commonly known as the Tucker Act.[2]

[2]It is clear that this section does not give the court jurisdiction to hear those parts of taxpayer's complaint requesting a declaratory judgment or an injunction against the enforcement of the Internal Revenue Code. This Court held in *Wells v. United States,* 280 F. 2d 275, 277 (1960), that "This Act does not give consent

Taxpayers' theory of recovery apparently is that the Fifth and Thirteenth Amendments to the Constitution of the United States created a circumstance under which they were entitled to be compensated for the time they spent meeting their obligations to the Government. This theory is a theory of recovery based upon implied contract. It is the taxpayers' contention that the Tucker Act granted the jurisdiction to hear such a case in implied contract to the District Court. This contention, however, is not well founded. The United States Supreme Court held in *United States v. Minn. Investment Co.,* 271 U.S. 212, 217 (1926), that:

> An implied contract in order to give the Court of Claims or a district court under the Tucker Act jurisdiction to give judgment against the Government must be one implied in fact and not one based merely on equitable considerations and implied in law.

Accord, see *Phillips v. United States,* 346 F. 2d 999 (C.A. 2d, 1965); *Alliance Assurance Co. v. United States,* 252 F. 2d 529, 532 (C.A. 2d, 1958); *Richter v. United States,* 190 F. Supp. 159 (E.D. Pa., 1960); *Holbert v. United States,* 167 F. Supp. 179 (E.D. Tenn., 1958). Thus, in order to determine the jurisdiction of the District Court, it is necessary to distinguish between contracts implied at law and contracts implied in fact. The distinction between these two forms of implied contracts is drawn quite concisely in I Williston, Contracts (3d ed. 1957), Sec. 3:

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to suits where only declaratory or other equitable relief is sought. It applies only to suits for recovery of damages."

> The expression "implied contract" has given rise to great confusion in the law. * * * Some of these rights [enforced by contractual action], however, were created, not by any promise or mutual assent of the parties, but were imposed by law on the defendant irrespective of, and sometimes in violation of, his intention. Such obligations were called implied contracts. Another name is that now generally in use of "quasi contracts." This expression makes clear that the obligations in question are not true contracts, and it also avoids confusion with another class of obligations which have also been called implied contracts. This latter class consists of obligations arising from mutual agreement and intent to promise but where the agreement and promise have not been expressed in words. Such transactions are true contracts and have sometimes been called contracts implied in fact. [Footnotes omitted.]

It is clear from the taxpayers' own demand for payment for the services allegedly rendered to the Government that any obligation to pay does not arise from the mutual agreement, either expressed or implied, which is a prerequisite of a contract implied in fact. Unless there is a contract implied in fact, there can be no jurisdiction under the Tucker Act. The taxpayers' theory of recovery is one of a contract implied in law. He is alleging that the law, the Fifth and Thirteenth Amendments of the Constitution, has imposed a duty upon the United States, irrespective of and in violation of its intention. Section 1346(a)(2) grants jurisdiction to the District Courts over "claims" based on "legal rights" where the right is

created by the Constitution or an act of Congress. Cf. Schwartz and Jacoby, Government Litigation, pp. 202-203, and the cases cited therein. Because no statute created the right to the compensation the taxpayer seeks, it is clear, therefore, that the Tucker Act does not confer jurisdiction on the District Court to hear this case, and that the District Court correctly dismissed taxpayers' complaint.

### C. Taxpayers' complaint improperly sought to restrain the assessment and collection of a tax in violation of Section 7421(a) of the Internal Revenue Code of 1954

Taxpayers also sought to "Permanently enjoin the defendants from further violation of the Fifth, Thirteenth and other applicable amendments of the Constitution and the rights of free men and women thereunder." (R. 2, 4.) This prayer for relief is quite vague but it appears that the taxpayers are seeking to restrain the Commissioner from proceeding against them in any matter regarding the collection or assessment of federal income taxes.

Section 7421(a) of the Internal Revenue Code of 1954 (Appendix, *infra*) provides that the federal courts are without jurisdiction to grant such relief:

> Except as provided in sections 6212(a) and (c), 6213(a), and 7426(a) and (b)(1), no suit for the purpose of restraining the assessment or collection of any tax shall be maintained in any court by any person, whether or not such person is the person against whom such tax was assessed.

The statutory exceptions to the general rule are clearly inapplicable to the facts of the instant case.

Section 7426[3] regulates civil actions by persons other than taxpayers, while Sections 6212 and 6213 limit the Commissioner's power to assess additional deficiencies after the filing of a timely petition with the Tax Court.

Because the statute is so clear, the only question remaining is whether the statute is applicable in the instant matter. If the statute applies, the matter is ended because the District Court correctly determined that it lacked jurisdiction. If the statute does not apply, the taxpayers must still establish grounds for the court to invoke its equity jurisdiction. The leading case in the narrow situation where Congress intended that the statutory prohibition not apply is *Enochs v. Williams Packing Co.,* 370 U.S. 1, 7-8 (1962):

> The manifest purpose of § 7421(a) is to permit the United States to assess and collect taxes alleged to be due without judicial intervention, and to require that the legal right to the disputed sums be determined in a suit for refund. In this manner the United States is assured of prompt collection of its lawful revenue. Nevertheless, if it is clear that under no circumstances could the Government ultimately prevail, the central purpose of the Act is inapplicable and, under the *Nut Margarine* case, the attempted collection may be enjoined if equity jurisdiction otherwise exists. In such a situation the exaction is merely in "the guise of a tax." *Id.* [284 U.S.], at 509.

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[3]Added by Section 110(a), Federal Tax Lien Act of 1966, P.L. 89-719, 80 Stat. 1125.

> We believe that the question of whether the Government has a chance of ultimately prevailing is to be determined on the basis of the information available to it at the time of suit. Only if it is then apparent that, under the most liberal view of the law and the facts, the United States cannot establish its claim, may the suit for an injunction be maintained. Otherwise, the District Court is without jurisdiction, and the complaint must be dismissed. To require more than good faith on the part of the Government would unduly interfere with a collateral objective of the Act—protection of the collector from litigation pending a suit for refund. And to permit even the maintenance of a suit in which an injunction could issue only after the taxpayer's nonliability had been conclusively established might "in every practical sense operate to suspend collection of the . . . taxes until the litigation is ended." *Great Lakes Dredge & Dock Co. v. Huffman,* 319 U.S. 293, 299. * * *

In order to restrain the assessment and collection of any tax, a taxpayer must, therefore, establish that under no circumstances could the Government possibly prevail in an action on the merits. Unless this is shown, all other factors are irrelevant, and the Court has no jurisdiction. In the instant case, taxpayers have failed to show that the Government could not possibly prevail. General allegations that collection of the tax would be illegal or unconstitutional are insufficient to meet the strict test of the *Williams Packing Co.* case. This Court fully recognizes these principles. *Enterprises Unlimited, Inc. v. Davis,* 340

F. 2d 472 (1965) (where there was a dispute over the identity of the proper person against whom taxes should be assessed); *Walker v. Internal Revenue Service, U.S. Treasury Dept.,* 333 F. 2d 768 (1964), certiorari denied, 380 U.S. 926 (1965).

A particularly instructive case is *Moon v. Freeman,* 245 F. Supp. 837 (E.D. Wash., 1965), where the taxpayer sued to recover $168.52 paid to purchase wheat marketing export certificates or, in the alternative, sought to restrain the enforcement of that statute requiring the purchase of wheat marketing export certificates because such certificates constituted a tax or a duty on exports in violation of Article I, Section 9, Clause 5, of the United States Constitution. In that action, the taxpayer could prevail only if the required purchase of the export certificates was a tax and could, therefore, be successful in the action for an injunction only by establishing that Section 7421(a) of the Internal Revenue Code of 1954 was not applicable in her case. The court held that these general allegations of unconstitutionality were insufficient to meet the test of the *Williams Packing Co.* case.

It follows that, for these reasons, the decision of the District Court was correct and that the court lacked the jurisdiction to hear this portion of taxpayers' complaint.

**D. Taxpayers' complaint improperly sought a declaratory judgment as to the constitutionality of the Internal Revenue Code of 1954**

Taxpayers' complaint has requested a judgment against the United States to the effect (R. 4):

> That in entirety the Internal Revenue Code of 1954, Public Law 591, Chapter 736, 83rd Congress, 2nd Session, H. R. 8300, be declared to be an unconstitutional and unlawful act by said Congress and, therefore, of no force or effect, as having at its foundation the impressment of free men and women into involuntary servitude and not having the authority or power to do so in this free land.

This prayer obviously constitutes a request for a declaratory judgment with respect to federal taxes. Clearly, such a request has been placed beyond the jurisdiction of the District Court by 28 U.S.C., Section 2201 (Appendix, *infra*) (commonly known as the Declaratory Judgment Act:

> In a case of actual controversy within its jurisdiction, *except with respect to Federal taxes,* any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such. [Emphasis added.]

The power of Congress so to limit the jurisdiction of the federal courts to non-tax matters was recognized by the United States Supreme Court in *Great Lakes Co. v. Huffman,* 319 U.S. 293, 301 (1943). This Court has long recognized this basic principle. *Mayer v. Wright,* 251 F. 2d 178 (1958); *Martin v. Andrews,* 238 F. 2d 552 (1956); *Royce v. Squire,* 168 F. 2d 250

(1948). It follows from these clear expressions of law that the District Court correctly ruled that it lacked jurisdiction to grant a declaratory judgment in a case with respect to federal taxes.

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## CONCLUSION

For the reasons stated, the order of the District Court was correct and should be affirmed.

Respectfully submitted,

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## Certificate of Counsel

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion, the foregoing brief is in full compliance with those rules.

Richard L. Carico,
Assistant United States Attorney.

**(Appendix Follows)**

# Appendix

## Appendix

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### CONSTITUTION OF THE UNITED STATES:

### Article I

*     *     *     *     *

Section 8. The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defence and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States;

*     *     *     *     *

To make all Laws which shall be necessary and proper for carrying into Execution the foregoing Powers, and all other Powers vested by this Constitution in the Government of the United States, or in any Department or Officer thereof.

### Amendment V

No person shall be held to answer for a capital, or otherwise infamous crime, unless on a presentment or indictment of a Grand Jury, except in cases arising in the land or naval forces, or in the Militia, when in actual service in time of War or public danger; nor shall any person be subject for the same offence to be twice put in jeopardy of life or limb; nor shall be compelled in any criminal case to be a witness against himself, nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use, without just compensation.

## Amendment XIII

Section 1. Neither slavery nor involuntary servitude, except as a punishment for crime whereof the party shall have been duly convicted, shall exist within the United States, or any place subject to their jurisdiction.

Section 2. Congress shall have power to enforce this article by appropriate legislation.

## Amendment XVI

The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.

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### 28 U.S.C.:

§1346. *United States as defendant.*

(a) The district courts shall have original jurisdiction, concurrent with the Court of Claims, of:

* * * * *

(2) Any other civil action or claim against the United States, not exceeding $10,000 in amount, founded either upon the Constitution, or any Act of Congress, or any regulation of an executive department, or upon any express or implied contract with the United States, or for liquidated or unliquidated damages in cases not sounding in tort.

* * * * *

§2201. *Creation of remedy.*

In a case of actual controversy within its jurisdiction, except with respect to Federal taxes, any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.

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INTERNAL REVENUE CODE OF 1954:

Sec. 6001. Notice or Regulations Requiring Records, Statements, and Special Returns.

Every person liable for any tax imposed by this title, or for the collection thereof, shall keep such records, render such statements, make such returns, and comply with such rules and regulations as the Secretary or his delegate may from time to time prescribe. Whenever in the judgment of the Secretary or his delegate it is necessary, he may require any person, by notice served upon such person or by regulations, to make such returns, render such statements, or keep such records, as the Secretary or his delegate deems sufficient to show whether or not such person is liable for tax under this title.

(26 U.S.C. 1954 ed., Sec. 6001.)

Sec. 6011. General Requirement of Return, Statement, or List.

(a) *General Rule.*—When required by regulations prescribed by the Secretary or his delegate any person made liable for any tax imposed by this title, or for the collection thereof, shall make a return or statement according to the forms and regulations prescribed by the Secretary or his delegate. Every person required to make a return or statement shall include therein the information required by such forms or regulations.

* * * * *

(26 U.S.C. 1964 ed., Sec. 6011.)

Sec. 6012. Persons Required to Make Returns of Income.

(a) *General Rule.*—Returns with respect to income taxes under subtitle A shall be made by the following:

(1) Every individual having for the taxable year a gross income of $600 or more (except that any individual who has attained the age of 65 before the close of his taxable year shall be required to make a return only if he has for the taxable year a gross income of $1,200 or more);

* * * * *

(26 U.S.C. 1964 ed., Sec. 6012.)

Sec. 7203. Willful Failure to File Return, Supply Information, or Pay Tax.

Any person required under this title to pay any estimated tax or tax, or required by this title or by

regulations made under authority thereof to make a return (other than a return required under authority of section 6015 or section 6016), keep any records, or supply any information, who willfully fails to pay such estimated tax or tax, make such return, keep such records, or supply such information, at the time or times required by law or regulations, shall, in addition to other penalties provided by law, be guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than $10,000, or imprisoned not more than 1 year, or both, together with the costs of prosecution.

(26 U.S.C. 1964 ed., Sec. 7203.)

Sec. 7210 [as amended by Sec. 4(b), Act of April 2, 1956, c. 160, 70 Stat. 87; Sec. 208(d), Highway Revenue Act of 1956, c. 462, 70 Stat. 374, 387; and Sec. 202(d), Excise Tax Reduction Act of 1965, P.L. 89-44, 79 Stat. 136]. Failure to Obey Summons.

Any person who, being duly summoned to appear to testify, or to appear and produce books, accounts, records, memoranda, or other papers, as required under sections 6420 (e) (2), 6421 (f) (2), 6424 (d) (2), 7602, 7603, and 7604 (b), neglects to appear or to produce such books, accounts, records, memoranda, or other papers, shall, upon conviction thereof, be fined not more than $1,000, or imprisoned not more than 1 year, or both, together with costs of prosecution.

(26 U.S.C. 1964 ed., Sec. 7210.)

Sec. 7421 [as amended by Sec. 110(c), Federal Tax Lien Act of 1966, P.L. 89-719, 80 Stat. 1125.] Prohibition of Suits to Restrain Assessment or Collection.

(a) *Tax.*—Except as provided in sections 6212 (a) and (c), 6213 (a), and 7426 (a) and (b) (1), no suit for the purpose of restraining the assessment or collection of any tax shall be maintained in any court by any person, whether or not such person is the person against whom such tax was assessed.

*   *   *   *   *

(26 U.S.C. 1964 ed., Sec. 7421.)

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**TREASURY REGULATIONS IN INCOME TAX (1954 Code):**

§ 1.6001-1 *Records.*

(a) *In general.* Except as provided in paragraph (b) of this section, any person subject to tax under subtitle A of the Code, or any person required to file a return of information with respect to income, shall keep such permanent books of account or records, including inventories, as are sufficient to establish the amount of gross income, deductions, credits, or other matters required to be shown by such person in any return of such tax or information.

*   *   *   *   *

(26 C.F.R. Sec. 1.6001-1.)

No. 22,676

IN THE

# UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

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NATIONAL LABOR RELATIONS BOARD,
Petitioner

v.

TANNER MOTOR LIVERY, LTD.,
Respondent

---

ON PETITION FOR ENFORCEMENT OF AN ORDER OF
THE NATIONAL LABOR RELATIONS BOARD

---

**BRIEF FOR THE NATIONAL LABOR RELATIONS BOARD**

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STATUTES:



MISCELLANEOUS:

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NATIONAL LABOR RELATIONS BOARD,
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ON PETITION FOR ENFORCEMENT OF AN ORDER OF THE NATIONAL LABOR RELATIONS BOARD

**BRIEF FOR THE NATIONAL LABOR RELATIONS BOARD**

## STATEMENT OF ISSUE PRESENTED

Whether under the circumstances presented the Board properly determined that employees Martin Abramson and Sanford Dorbin were discharged for engaging in protected activity notwithstanding Section 9(a) of the Act.

## STATEMENT OF THE CASE

This case is before the Court upon the petition of the National Labor Relations Board, pursuant to Section 10(e) of the National Labor Relations Act, as amended (61 Stat. 136, 73 Stat. 519, 29 U.S.C. Sec. 151, *et seq.*),[1] for enforcement of its supplemental order issued against respondent Company on June 30, 1967, and reported at 166 NLRB No. 35 (R. 71-74).[2] On June 29, 1965, this Court issued an opinion (349 F.2d 1) remanding the Board's order in the original proceeding, reported at 148 NLRB 1402 (R. 32-37). This Court has jurisdiction under Section 10(e) and (f) of the Act.

In its initial decision, the Board found that the Company violated Section 8(a)(1) of the Act by discharging two employees for engaging in peaceful, concerted activities protected by Section 7 of the Act and for threatening one of those employees, who had been reinstated, with a future discharge if he continued to engage in the same activity. This Court, in agreement with the Board, held that the discharged employees' concerted efforts to secure racially integrated working conditions constituted protected activity under Section 7 of the Act. However, the Court remanded the case for consideration of whether an employer may lawfully discharge employees who engage in otherwise protected concerted activities, or who picket in support of such activities, when there is an established collective-bargaining representative having a contract with the em-

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[1] The pertinent statutory provisions are reprinted in Appendix A, *infra*, pp. 19-21.

[2] References to the pleadings, the original decision and order of the Board, the supplemental decision and order, and other papers in the original and supplemental proceedings reproduced as "Volume I, Pleadings" are designated "R". References to the stenographic transcript reproduced and filed with the Court are designated "Tr." References designated "GC Exh." are to the General Counsel's exhibits in the original proceeding. References preceding a semicolon are to the Board's findings; those following are to the supporting evidence.

ployer and the employees do not act or seek to act through that representative. On remand, the Board reaffirmed its previous conclusion that the discharges and threat to discharge interfered with the exercise of the employees' rights under Section 7 of the Act and thereby violated Section 8(a)(1) of the Act. The relevant facts are fully set forth in the Court's opinion and may be summarized as follows:

## I. THE BOARD'S FINDINGS OF FACT

Martin Abramson and Sanford Dorbin, taxicab drivers at the Santa Monica branch of respondent Company, decided in mid-July 1963, to try to persuade the Company to racially integrate the work force (R. 13; Tr. 11-14, 61-62).[3] Thereafter, Abramson conferred with Elbert Kellough, a Negro with previous cab-driving experience who was interested in working at Tanner (R. 13; Tr. 93). On July 23, 1963, Abramson talked to Frank Barrial, manager of respondent's Santa Monica branch, who told him that he had no objections to hiring a Negro, and that he had on file the application of a Negro whom he intended to hire at the first opportunity. Abramson asked Barrial if he would consider Kellough for employment. Barrial agreed to see Kellough the next day (R. 13; Tr. 7-9). Barrial informed him there were no openings but gave him an application which Kellough subsequently filed (R. 13; Tr. 30-31, 94-95).

On July 24, Barrial had separate conversations with Abramson and Dorbin about the Company's hiring policy (R. 13-14; Tr. 17-19, 64-66). On July 29, Abramson again went to see Barrial and was handed an inter-

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[3]The Company employed between 50 and 60 drivers at its Santa Monica branch, none of whom were Negro, although Negroes were employed at other branches (R. 73, n. 6, 13; Tr. 10, 88, 104).

departmental memo from the Company's Operations Manager, John Hughes, informing him that he was discharged because of his involvement in two accidents on July 24 and 25, respectively, resulting in damage to his cab (R. 14; Tr. 33-34, GC Exh. 2). Abramson protested to Barrial that he had been doing a good job during the year and a half that he was with the Company and asked Barrial whether he or Hughes had caused his discharge. Barrial replied that Hughes had directed his discharge and that if it were up to him he would not have discharged Abramson (R. 14; Tr. 35-36).

At this same meeting, Abramson expressed concern about the fact that three drivers had been hired that week, but no effort was made to communicate with the Negro applicants. Abramson asked Barrial why he had not contacted them, to which Barrial replied that he had been unable to locate the applicant whom he mentioned at their first meeting as he could not find his application and did not know his name (R. 15; Tr. 36). As for Kellough, Barrial stated that he had a criminal record and was too old. Abramson pointed out that other drivers had criminal records and that most of the drivers were past 40. He mentioned one driver who was 70 and had been hired when he was past 50. To this Barrial replied that he wanted to start hiring "young guys" and in any event when he hired a Negro he wanted him to be "sharp" (R. 15; Tr. 37). Regarding the other Negro applicant, Abramson told Barrial that he had talked to the supposed applicant and discovered that Barrial had failed to give him an application (Tr. 36-37).

On August 1 Abramson, joined by representatives of several civil rights groups, began picketing the Company. Abramson carried a sign which bore the message "Jim Crow Shop" (R. 15; Tr. 38-39). Dorbin

joined the picket line on the afternoon of August 6; that evening he received the following telegram:

> DISCHARGED FOR CONDUCT NOT IN KEEPING WITH COMPANY POLICY
>
> NICK LARI APPROVED BY FRANK BARRIAL AND WILLIAM KNIGHT
>
> (R. 15; GC Exh. 3, Tr. 73-74.)

Dorbin immediately called Nick Lari, the dispatcher in charge of the office during the evening shift (R. 15; Tr. 122-123). Dorbin inquired in what respect his conduct was not in keeping with Company policy. Lari admitted that he had initiated Dorbin's discharge because of his participation in the picket line. He added that he had called Knight, a Company vice president, who had dictated the actual wording of the telegram (R. 15; Tr. 74-75). Dorbin then called Abramson and asked him to call Lari and verify his discharge. To Abramson's inquiry, Lari responded that Dorbin was discharged because "he went out there and picketed with you Negro-lovers" (R. 15; Tr. 41-42, 76).

The following day Dorbin was reinstated. Operations Manager Hughes, when he found out that Dorbin had been discharged for participating in the picket line, ordered Ronald Davis, manager of the Company's Pasadena-Glendale branch, to contact Dorbin and offer him reinstatement (R. 16; Tr. 147-149). Davis, who was substituting for Barrial, then on vacation, told Dorbin that a mistake had been made (R. 16; Tr. 103). He discussed Dorbin's picketing activities and questioned whether it was right for an employee to picket his company (R. 16; Tr. 107, 80-82). He concluded by telling Dorbin that while his discharge had been "a mistake," "there are a lot of reasons to fire a guy, you know, and the next time it won't be a mistake" (R. 16; Tr. 82).

## II. THE BOARD'S CONCLUSION ON REMAND

The Board reaffirmed its previous conclusion that respondent Company, by discharging Abramson and Dorbin, and by threatening to discharge Dorbin, interfered with the exercise of the employees' rights under Section 7 of the Act.[4] In reaching this conclusion the Board found it unnecessary to determine whether the discharged employees had attempted to act through their bargaining agent. Determining whether the employees were filing a grievance within the meaning of the proviso to Section 9(a) of the Act, or seeking to bargain individually with their employer, was also considered unnecessary, for, as the Board decided, in either event the employees were not acting in derogation of their established bargaining agent by seeking racially integrated working conditions.

Accordingly, the Board reaffirmed its original order requiring the Company to cease and desist from the unfair labor practices found, to reinstate Abramson[5] with back pay and to post an appropriate notice.

# ARGUMENT

## THE BOARD PROPERLY FOUND THAT THE COMPANY VIOLATED SECTION 8(a)(1) OF THE ACT

### A. Introduction

In its prior ruling herein, the Court affirmed the Board's conclusion that employees Abramson and Dorbin were discharged because of their efforts to secure racially integrated working conditions. This Court further held that if Abramson and Dorbin had not been represented by a collec-

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[4]Member Brown, dissenting, would have dismised the complaint.

[5]No order requiring reinstatement or back pay regarding Dorbin was entered as he was offered and accepted full reinstatement on August 7, and suffered no loss of pay (R. 34, n. 6; Tr. 84).

tive bargaining agent their activities would undoubtedly enjoy the protection of Section 7 of the Act and respondent would be guilty of an unfair labor practice in discharging them because of those activities. The question presented by the remand is whether the employees' efforts to secure racially integrated working conditions loses the protection of Section 7 by virtue of the principle of exclusive bargaining embodied in Section 9(a) of the Act.

In the circumstances of this case, the Board found it unnecessary to determine whether Abramson and Dorbin had attempted to act through their established bargaining representative before addressing their concerted protest directly to their employer. The Board also deemed it unnecessary to determine if the employees were presenting a grievance or seeking to bargain, within the meaning of Section 9(a). It was the Board's view that irrespective of the answers to these questions, the employer had nevertheless committed an unfair labor practice in discharging Abramson and Dorbin. In the Board's judgment the conduct of these two employees could not be considered to undercut or imperil the Union's status as exclusive bargaining agent. Moreover, the Board noted that it has never been contended that these employees were discharged because they failed to act through their bargaining representative. Thus, even if that failure were to render an aspect of their conduct unprotected, it cannot be relied upon by this employer as an affirmative defense to the charged unfair labor practice.

We show below that the Board's reaffirmance of its initial order is sustainable on either of these grounds.[6]

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[6]The Board's finding that Company Branch Manager Davis unlawfully threatened Dorbin with discharge if he continued engaging in his protest activity (R. 34, 16; Tr. 82) was not discussed by the Court in its original opinion. By its terms, this threat would be applicable even if Dorbin proceeded through the Union in his future efforts

### B. Section 9(a) of the Act did not render unprotected the concerted activity of employees Abramson and Dorbin

The concept of exclusive bargaining has its basis, of course, in Section 9(a), which provides that the representatives selected by the majority "[are] the exclusive representatives of all the employees in such unit for the purposes of collective bargaining in respect to rates of pay, wages, hours of employment, or other conditions of employment . . . ." It has been invoked to forbid an employer from attempting to undercut the duly selected collective representative by ignoring it and bargaining only with the individual employees themselves (*Medo Photo Corp. v. N.L.R.B.*, 321 U.S. 678) or by refusing to bargain with the selected representative in reliance upon individual contracts between the employer and its employees (*J.I. Case Co. v. N.L.R.B.*, 321 U.S. 332). Thus interpreted, the section serves the cause of "orderly collective bargaining" (*Medo Photo Corp. v. N.L.R.B.*, *supra*, 321 U.S. at 685), and comports with the Act's declared policy of encouraging collective bargaining. Section 1 of the Act. The concept of exclusive representation has also been applied to render unprotected economic pressure by employees which is designed to achieve a purpose contrary to that of the chosen representative.[7]

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to change Tanner's hiring policy. Thus, the question posed by the Court has no bearing on this aspect of the case, and the Board's cease and desist order relating to this threat should be affirmed irrespective of the correctness of the Board's decision on remand.

[7] *N.L.R.B. v. Sunset Minerals*, 211 F.2d 224 (C.A. 9) (minority walkout in violation of contract to compel employer to cure certain grievances); *N.L.R.B. v. Draper Corp.*, 145 F.2d 199 (C.A. 4) (minority strike found to be interference with collective bargaining by duly authorized agent); *Plasti-Line, Inc. v. N.L.R.B.*, 278 F.2d 482 (C.A. 6) (dissident minority strike in violation of no-strike provision).

However, where the economic pressure of employees, albeit initiated by a minority, cannot be said to undercut the bargaining representative's status, the protection of Section 7 is not withdrawn. See *N.L.R.B. v. R.C. Can Co.,* 328 F.2d 974, 978-979 (C.A. 5); *Western Contracting Corp. v. N.L.R.B.,* 322 F.2d 893, 897-899 (C.A. 10); *Hamilton v. N.L.R.B.,* 160 F.2d 465, 469-471 (C.A. 6), cert. den., 332 U.S. 762. Certainly if there were an identity of goals between the Union and these protesting employees, the fact that the Union did not trigger the protest or the economic pressure in support of it would not render the employees' conduct unprotected. *N.L.R.B. v. R.C. Can Co., supra,* 328 F.2d at 978-979; *Western Contracting Corp. v. N.L.R.B., supra,* 322 F.2d at 897; *Hamilton v. N.L.R.B., supra,* 160 F.2d at 469-471. On the facts of this case, the bargaining representative was precluded from taking a position contrary to the employees' and, we submit, their protest is entitled to protection under Section 7 of the Act.

The bargaining agent is under a duty to represent the employees fairly, and this duty includes the requirement that it neither practice nor tolerate racial discrimination. See *Local Union No. 12, United Rubber, Cork, Linoleum & Plastic Workers of America, AFL-CIO v. N.L.R.B.,* 368 F.2d 12, 17 (C.A. 5), cert. denied, 389 U.S. 837; *Local 1367, International Longshoremen's Association, AFL-CIO (Galveston Maritime Association, Inc.),* 148 NLRB 897; enforced, *per curiam,* 368 F.2d 1010 (C.A. 5), cert. denied, 389 U.S. 837; *Independent Metal Workers Union Local No. 1 (Hughes Tool Company),* 147 NLRB 1573.[8] Thus, if the bargaining agent

[8]Initial enforcement of a union's duty of fair representation was procured in the courts under the doctrine stated in *Steele v. Louisville & Nashville R.R.,* 323 U.S. 192; see, e.g., *Syres v. Local 23, Oil Workers,* 350 U.S. 892. In 1962, the Board decided that a breach of the duty of fair representation constitutes an unfair labor practice cognizable under the Act. *Miranda Fuel Co.,* 140 NLRB 181. While this doctrine on

acquiesces in the employer's discrimination, it has failed in its representative duty.

Therefore, this case cannot be classified with those cases in which a dissident minority group seeks to achieve a purpose at odds with a bargaining decision of the chosen and exclusive representative.[9] Moreover, the employees' protest for racially integrated conditions reflected the avowed policy of both their state and nation.[10] It should not be assumed that their bargaining representative would have taken a contrary unlawful position. See, *Local 357, IBT v. N.L.R.B.*, 365 U.S. 667, 676. Accordingly, as the Board held (R. 73), it must be assumed "that these employees were acting in accord with, and in furtherance of, the lawful position of their collective bargaining agent." It would distort the intent of Section 9(a)

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initial review received the acceptance of only one member of a Second Circuit panel (*N.L.R.B. v. Miranda Fuel Co., Inc.*, 326 F.2d 172 (C.A. 2), the Board's position has subsequently won firmer acceptance. *Local Union No. 12, United Rubber, Cork, Linoleum & Plastic Workers of America, AFL-CIO v. N.L.R.B., supra; Local 1367, International Longshoremen's Association, AFL-CIO v. N.L.R.B., supra.*

And in *Vaca v. Sipes*, 386 U.S. 171, a Supreme Court majority, in the course of reversing a state court's determination that a union member could not collect damages from a union which had not pressed his grievance against an employer to arbitration, addressed itself to the question of federal preemption. *Id.*, at 176-188. A necessary premise of the majority's discussion of the preemption issue "was its explicit assumption that unfair representation is an unfair labor practice." *Truck Drivers and Helpers, Local Union 568 v. N.L.R.B.*, 379 F.2d 137, 141-142 (C.A.D.C.). See also, the concurring opinion of Justice Fortas in *Vaca*, joined by the Chief Justice and Justice Harlan. 386 U.S. at 198 ("a claim that the union has breached its statutory duty of fair representation is a claim of unfair labor practice . . . .").

[9] E.g., *N.L.R.B. v. Sunbeam Lighting Co.*, 318 F.2d 661 (C.A. 7); *Harnischfeger Corp. v. N.L.R.B.*, 207 F.2d 575 (C.A. 7); *N.L.R.B. v. Draper Corp.*, 145 F.2d 199 (C.A. 4).

[10] West Ann. Cal. Codes: Labor Code § 1420(a); Civil Rights Act of 1964, Title VII, Equal Employment Opportunity, Section 703(a), 78 Stat. 255, 42 U.S.C. § 2000e-2(a).

and offend public policy to hold that the employees' expression of concern on this vital issue was unprotected.[11]

In sum, while recognizing that Section 9(a) is intended, in part, to protect the majority choice against interference by minority action, we contend that where no interference can possibly be shown it would be unwarranted to require all complaints and economic pressure to emanate from the bargaining representative.[12] Here, there could exist no conflict of policies and hence the bargaining representative has not been weakened by minority action. The facts of this case show simply that two employees were discharged after speaking out on a matter of crucial importance for them as members of a bargaining unit and as citizens. The employer should not be permitted to invoke Section 9(a) as a *post hoc* justification for his retaliatory discharges where, as here, "there is not a single stitch of evidence to indicate that [the protesting employees'] action put the Employer in any sort of quandary. It was not put in the position of choosing between

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[11] *Black-Clawson Co. v. I.A.M., Lodge 355, District 137,* 313 F.2d 179 (C.A. 2), does not support a contrary conclusion. The court decided in that case that Section 9(a) "does not confer upon an individual grievant the power, enforceable in a court of law, to compel the employer to arbitrate his grievance." *Id.,* at 184. This proposition (compare *Hughes Tool Co. v. N.L.R.B.,* 147 F.2d 69, 72 (C.A. 5); *Donnelly v. United Fruit Co.,* 40 N.J. 61, 190 A.2d 825, and *Vaca v. Sipes, supra,* 386 U.S. at 184-186) has no application in the instant case, where the employer discharged employees for their adherence to a position after having conferred with them on the matter of protest. Whether or not these employees could have sued their employer under the contract cannot be deemed to control the issue whether their activity in raising the complaint was unprotected. The "right to sue" under a collective bargaining agreement should not be equated in this case with the Section 7 right to be free from retaliatory action.

[12] See Cox, *The Right To Engage In Concerted Activities,* 26 Ind. L.J. 319, 332 (1951): "Much can be said in favor of aggressive unions whose leaders are constantly pricked to action by militant minorities."

the demands of the Union and the demands" of Abramson and Dorbin. *N.L.R.B. v. R.C. Can Co., supra,* 328 F.2d at 979.

**C. The Company discharged Abramson and Dorbin because of its opposition to their concerted activity and not because of their failure to act through the Union**

The Board's finding, accepted by this Court, is that Abramson and Dorbin were discharged for seeking integrated working conditions. Even assuming, *arguendo,* that these employees' protest had an unprotected aspect in that they did not proceed through their bargaining representative, it is clear that they were not discharged for that reason. The Company, through its Santa Monica branch manager, Frank Barrial, freely discussed the hiring policy *vis-a-vis* Negro applicants with Abramson and Dorbin. At no time did the Company decline to discuss their complaint on the basis that such discussion would interfere with "orderly bargaining" or undermine the recognized representative. If the Company was going to take the position that it would only deal with the Union on this matter, it should have advised the employees of this at the outset.

There is no suggestion that the Company apprised the Union of the employees' complaint, even after it had discharged them, and no suggestion that the Company ever attached any importance whatever to the failure of the employees to proceed through the Union. Rather, supervisor Lari told Abramson that Dorbin had been discharged because he had "picketed with you Negro-lovers" (Tr. 41-42). Moreover, Dorbin was reinstated the next day and was told that a mistake had been made. At this time Dorbin's picketing activities were discussed and management only questioned whether it was right for an employee to picket his company. No mention was made of the failure to proceed through the Union and Dorbin was obviously reinstated notwithstanding that failure.

This evidence when considered together with the Company's carefully developed pretext for Abramson's termination and its explanation for the reinstatement offer to Dorbin (Tr. 147-148), demonstrates conclusively that the principle of exclusive representation had nothing to do with the discharge of these employees. Rather, it is clear that the penalty of discharge was meted out because the Company was opposed to employee picketing aimed at obtaining an integrated work force. The presence of an unprotected element in the means used to obtain that object cannot serve as a defense where the employer's dissatisfaction relates solely to the protected aspects of the conduct. See *N.L.R.B. v. E. W. Buschman Co.,* 380 F.2d 255, 257-258 (C.A. 6), cert. denied, 389 U.S. 1045; *N.L.R.B. v. Anchor Rome Mills,* 228 F.2d 775, 782 (C.A. 5); *N.L.R.B. v. Murray-Ohio Mfg. Co.,* 358 F.2d 948, 950 (C.A. 6); *Cone Brothers Contracting Co.,* 158 NLRB 186, 212. Cf. *N.L.R.B. v. Puerto Rico Rayon Mills, Inc.,* 293 F.2d 941, 946-948 (C.A. 1); *N.L.R.B. v. Berg-Airlectro Co.,* 302 F.2d 474, 475 (C.A. 7).

Directly relevant in this connection are cases dealing with the doctrine of condonation.[13] Those cases teach that an employer, having once condoned the unprotected aspect of concerted employee conduct, may not thereafter rely upon such activity as ground for reprisal; for by such action the employer "is indicating its real concern is with the concerted nature of the activity, and not with its unprotected aspects." *Brantley Helicopter*

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[13] See, e.g., *Confectionery & Tobacco Drivers v. N.L.R.B.,* 312 F.2d 108, 113 (C.A. 2); *N.L.R.B. v. E. A. Laboratories,* 188 F.2d 885, 886-887 (C.A. 2), cert. denied, 342 U.S. 871; *Stewart Die Casting Corp. v. N.L.R.B.,* 114 F.2d 849, 855-856 (C.A. 7), cert. denied, 312 U.S. 680; *N.L.R.B. v. Aladdin Industries,* 125 F.2d 377, 382 (C.A. 7), cert. denied, 316 U.S. 706; *Alabama Marble Co.,* 83 NLRB 1047, 1048, enforced, *per curiam,* 185 F.2d 1022 (C.A. 5), cert. den., 342 U.S. 823; *Brantley Helicopter Corp.,* 135 NLRB 1412, 1416-1418. Compare *N.L.R.B. v. Marshall Car, Wheel & Foundry Co.,* 218 F.2d 409, 414 (C.A. 5); *Plasti-Line, Inc. v. N.L.R.B.,* 278 F.2d 482, 485 (C.A. 6).

*Corp., supra,* 135 NLRB at 1418. Here, as shown above, the Company voluntarily acceded to the employees' requests to discuss a condition of employment. Having discharged the employees not because they sought to deal directly with him but because of their concerted adherence to the object of an integrated work force, the defense of direct bargaining should not be open to it.[14]

**D. The alleged partial termination of respondent's business subsequent to the proceedings below is irrelevant here**

Noting that after the completion of the instant case on remand, the Board reopened another case against respondent and consolidated that case with two other pending cases to determine certain issues of successorship, respondent argues here (R. 84) that this case should be remanded for the

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[14]In *N.L.R.B. v. Lundy Manufacturing Corp.*, 316 F.2d 926 (C.A. 2), cert. denied, 375 U.S. 895, a Section 9(a) defense was rejected, and an employer was found to have unlawfully refused to bargain with a dissident employee group. In reaching that conclusion the court emphasized that no grievance machinery existed through which the dissident group could have presented its complaints. *Id.*, at 926. Here, whether or not such machinery existed, it is clear that the Company was not insisting upon that procedure; and that, therefore, its discharge of Abramson and Dorbin had no relationship to its rights or the rights of the exclusive representative under the collective bargaining agreement.

Contrary to the assertion in respondent's Answer, we respectfully submit that the Board's decision on remand was consistent with the Court's direction that it consider to what extent Section 9(a) limits or removes the protection afforded Abramson and Dorbin by Section 7. The Board's determination that the discharged employees could not have been acting in derogation of a lawful position of their bargaining agent obviated the need for reopening the record or determining whether the employees were presenting a grievance. Accordingly, the Board's decision was well within its discretion at this stage of the proceeding. See *N.L.R.B. v. Don Juan Co.,* 185 F.2d 393, 394 (C.A. 2); *N.L.R.B. v. Western & Southern Life Insurance Co.,* 391 F.2d 119, 121 (C.A. 3); *N.L.R.B. v. Lundy Manufacturing Corp.,* 316 F.2d 921, 923 (C.A. 2), cert. denied, 375 U.S. 895. Cf. *F.T.C. v. Colgate-Palmolive Co.,* 380 U.S. 374, 382-384; *F.C.C. v. Pottsville Broadcasting Co.,* 309 U.S. 134, 145.

purpose of consolidation even "if the Court finds that Respondent violated the Act" in order that two other companies–allegedly successors–may be joined as respondents and a decision may be made "consistent" with the consolidated case now pending before the Board. It remains unclear whether respondent is asserting that its alleged discontinuance of certain of its business operations renders this enforcement proceeding moot, or that possible liability of its "successors" must be determined before the Board's order herein can be enforced. In either case, we submit, respondent is incorrect.

The Board's order, in pertinent part, requires the reinstatement, with backpay, of employee Abramson and the posting of appropriate notices. If respondent is contending that it would be unable to comply with these provisions because it is no longer owner of, or connected with, the employing business, such is not a defense to the entry of a decree. If its order is enforced, the Board will determine, in a subsequent proceeding, whether compliance with all or part of its order is possible and will, of course, excuse the non-performance of any "impossible" obligation. Moreover, if the Board were to insist upon unwarranted acts of compliance, the right of a defunct respondent would be fully protected by the Court in the ensuing contempt action.

This was precisely the approach which the Supreme Court followed in *Southport Petroleum Co. v. N.L.R.B.*, 315 U.S. 100. There, the employer argued that the Board's order (directing it to cease and desist from certain unfair labor practices, to post notices and to reinstate employees with backpay) should not be enforced because the corporation involved had been dissolved and its assets transferred to totally disinterested purchasers. The Supreme Court affirmed the Court of Appeals' refusal to permit the em-

ployer to adduce additional evidence establishing the dissolution and transfer, commenting as follows (*Ibid.*, at 106-107):

> Implicit in the reinstatement provision of the Board's order was a condition of the continued operation by the offending employer (of his business) . . . Whether there was a *bona fide* discontinuance and a true change of ownership—which would terminate the duty of reinstatement created by the Board's order—or merely a disguised continuance of the old employer, does not clearly appear, and accordingly, is a question of fact properly to be resolved by the Board on direct resort to it, or by the Court if contempt proceedings are instituted.
>
> The additional evidence was immaterial for the further reason that the Board's order ran not only to the petitioner, but also to its 'officers, agents, successors, and assigns.' [footnote omitted] Granting the truth of every one of petitioner's allegations, it still is possible that the Board's order may yet be the basis—and the indispensable basis—of liability on the part of any of these persons, regardless of any present incapacity of petitioner to perform, or liability on its part for failure to perform, its duty of reinstatement.

In essentially identical situations numerous other courts of appeals have granted full enforcement of the Board's order holding that the extent to which compliance is possible is properly determined by the Board in a subsequent proceeding. *N.L.R.B. v. Haspel*, 228 F.2d 155, 156 (C.A. 2); *N.L.R.B. v. Somerset Classics, Inc.*, 193 F.2d 613, 615-616 (C.A. 2), cert. denied, 344 U.S. 816; *N.L.R.B. v. Lamar Creamery Co.*, 246 F.2d 8, 10 (C.A. 5); *N.L.R.B. v. Talladega Cotton Factory, Inc.*, 213 F.2d 209, 215 (C.A. 5); *N.L.R.B. v. Cordele Mfg. Co.*, 172 F.2d 225 (C.A. 5); *N.L.R.B. v. Caroline Mills, Inc.*, 167 F.2d 212, 214 (C.A. 5); *N.L.R.B. v. Electric Steam Radiator Corp.*, 321 F.2d 733, 738 (C.A. 6); *N.L.R.B. v. Acme Mattress, Inc.*, 192 F.2d 524 (C.A. 7); *Indianapolis Power & Light Co. v. N.L.R.B.*, 122 F.2d 757, 765 (C.A. 7), cert. denied, 315 U.S. 804; *N.L.R.B.*

*v. National Garment Co.*, 166 F.2d 233, 238-239 (C.A. 8), cert. denied, 334 U.S. 845. Thus, we submit, respondent's allegation (R. 83 that it "is not longer engaged in the taxicab business" is not grounds for a refusal to enforce the Board's order.[15]

If respondent is claiming that the other companies it names–Pacific Coast Transportation Company and West Coast Transportation Co.–must be joined as respondents in this case before an enforceable decree can issue, it is also in error. The Board in *Perma-Vinyl Corp.*, 164 NLRB No. 119, 65 LRRM 1168, enforcement pending *sub nom., United States Pipe & Foundry Co. v. N.L.R.B.*, No. 24,837 (C.A. 5), announced the rule that an independent purchaser of a continuing enterprise, who takes with knowledge of outstanding unremedied unfair labor practice charges, will ordinarily be held responsible for remedying the unfair labor practices of its predecessor. The unfair labor practice in the instant case occurred in July and August of 1963, two years before the alleged transfer of respondent's business. The Board's order in this case runs to respondent's "successors and assigns" (R. 35). As pointed out above, the Board may "defer its consideration of the remedial detail whether its order can be directed derivatively against parties other than the employer actually found guilty of the unfair labor practice in question." *N.L.R.B. v. C. C. C. Associates, Inc.*, 306 F.2d 534, 540 (C.A. 2). If these companies are successors, they could have intervened in this proceeding. Moreover, as purchasers of the employing enterprise, they will have full opportunity to litigate the issue of their liability

[15] In any event, the backpay obligation remains even if respondent is no longer in the taxicab business and it is possible that there may be substantially equivalent employment to which Abramson could be reinstated in those portions of respondent's enterprise which are still in operation.

at the compliance stage of this proceeding when a decree enforcing the Board's order issues.

In any event, respondent has no standing to ask that this decree should not issue because other parties may be involved in questions of compliance. It can show no prejudice in the litigation of the unfair labor practice here; and, as noted (*supra,* pp. 15-17), it will have the opportunity to litigate its own ability to remedy the unfair labor practice when compliance becomes an issue. In sum, respondent can rely upon neither a claim of inability to comply nor the asserted interests of other potential parties at the compliance stage, as a means to avoid the issuance of an order against it in the proceeding pending before this Court.

## CONCLUSION

For the reasons stated, it is respectfully submitted that a decree should issue enforcing the Board's order in full.

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July 1968.

## APPENDIX

The relevant provisions of the National Labor Relations Act, as amended (61 Stat. 136, 73 Stat. 519, 29 U.S.C., Secs. 151, *et seq.*) are as follows:

### RIGHTS OF EMPLOYEES

Sec. 7. Employees shall have the right to self-organization, to form, join, or assist labor organization, to bargain collectively through representatives of their own choosing, and to engage in other concerted activities for the purpose of collective bargaining or other mutual aid or protection, and shall also have the right to refrain from any or all of such activities except to the extent that such right may be affected by an agreement requiring membership in a labor organization as a condition of employment as authorized in section 8(a)(3).

### UNFAIR LABOR PRACTICES

Sec. 8(a) It shall be an unfair labor practice for an employer—

(1) to interfere with, restrain, or coerce employees in the exercise of the rights guaranteed in section 7;

### REPRESENTATIVES AND ELECTIONS

Sec. 9(a) Representatives designated or selected for the purposes of collective bargaining by the majority of the employees in a unit appropriate for such purposes, shall be the exclusive representatives of all the employees in such unit for the purposes of collective bargaining in respect to rates of pay, wages, hours of employment, or other conditions of employment: Provided, That any individual employee or a group of employees shall have the right at any time to present grievances to their employer and to have such grievances adjusted, without the intervention of the bargaining representative, as long as the adjustment is not inconsistent with the terms of a collective-bargaining contract or agreement then in effect: Provided, further, That the bargaining

representative has been given opportunity to be present at such adjustment.

PREVENTION OF UNFAIR LABOR PRACTICES

* * *

Sec. 10(c) * * * If upon the preponderance of the testimony taken the Board shall be of the opinion that any person named in the complaint has engaged in or is engaging in any such unfair labor practice, then the Board shall state its findings of fact and shall issue and cause to be served on such person an order requiring such person to cease and desist from such unfair labor practice and to take such affirmative action including reinstatement of employees with or without back pay, as will effectuate the policies of this Act: * * *

* * *

(e) The Board shall have power to petition any court of appeals of the United States, . . . within any circuit . . . wherein the unfair labor practice in question occurred or wherein such person resides or transacts business, for the enforcement of such order and for appropriate temporary relief or restraining order, and shall file in the court the record in the proceedings, as provided in section 2112 of title 28, United States Code. Upon the filing of such petition, the court shall cause notice thereof to be served upon such person, and thereupon shall have jurisdiction of the proceeding and of the question determined therein, and shall have power to grant such temporary relief or restraining order as it deems just and proper, and to make and enter a decree enforcing, modifying, and enforcing as so modified, or setting aside in whole or in part the order of the Board. No objection that has not been urged before the Board, its member, agent, or agency, shall be considered by the court, unless the failure or neglect to urge such objection shall be excused because of extraordinary circumstances. The findings of the Board with respect to questions of fact if supported by substantial evidence on the record considered as a whole shall be conclusive. If either party shall apply to the court for leave to adduce additional evidence and shall show to the satisfaction of the court that such additional

evidence is material and that there were reasonable grounds for the failure to adduce such evidence in the hearing before the Board, its member, agent, or agency, the court may order such additional evidence to be taken before the Board, its member, agent, or agency, and to be made a part of the record. . . . Upon the filing of the record with it, the jurisdiction of the court shall be exclusive and its judgment and decree shall be final, except that the same shall be subject to review by the . . . Supreme Court of the United States upon writ of certiorari or certification as provided in section 1254 of title 28.

No. 22,676 MAR 10 1969

IN THE

# United States Court of Appeals

## For the Ninth Circuit

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|---|---|
| NATIONAL LABOR RELATIONS BOARD, *Petitioner,* vs. TANNER MOTOR LIVERY, LTD., *Respondent.* | |

On Petition for Enforcement of an Order of the National Labor Relations Board

**BRIEF OF RESPONDENT**
**TANNER MOTOR LIVERY, LTD.**

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**On Petition for Enforcement of an Order of the National Labor Relations Board**

## BRIEF OF RESPONDENT TANNER MOTOR LIVERY, LTD.

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### JURISDICTION

This case is before the Court upon the petition of the National Labor Relations Board pursuant to Section 10(e) of the National Labor Relations Act, as amended, for enforcement of the Board's order issued against Respondeent on June 30, 1967 (166 NLRB No. 135). On June 29, 1965, this Court rendered its decision (349 F. 2d 1) remanding the Board's order in the original proceeding, issued on September 29, 1964 (148 NLRB 1402). The Court has jurisdiction under Sections 10(e) and 10(f) of the Act.

## STATEMENT OF THE CASE

The Board found that Martin Abramson, a taxicab driver employed by respondent at its Santa Monica branch, approached Respondent's branch manager, Frank Barrial, on July 23, 1967, regarding the possibility of Respondent's hiring as a taxicab driver one Elbert Kellough, a Negro with previous experience as a driver. Barrial informed Abramson that he had no objections to hiring a Negro and that he had on file the application of a Negro whom he intended to hire at the first opportunity, but that there were presently no openings. Barrial interviewed Kellough the following day, and gave him an application which subsequently was filed. (R. 13; Tr. 7, 94, 95.)

On July 24, 1967, Abramson and Sanford Dorbin separately conferred with Barrial about Respondent's hiring policies, specifically with regard to the hiring of negroes. (R. 13-14; Tr. 17-19, 64-66.) At all times material hereto, Respondent's taxicab drivers had an exclusive bargaining representative, Chauffeur's Union, Local 640, an affiliate of the Teamsters. Neither the record herein nor the Board's findings discloses that either Abramson or Dorbin at any time contacted the union regarding the hiring of negroes by Respondent, the racial composition of Respondent's driver force, or any other matter.

Subsequently, on July 24 and 25, 1967, Abramson was involved in two accidents which caused damage to his taxicab. He was advised on August 29, 1967 of his discharge because of the accidents. (R. 14; Tr. 33-34.)

On August 1, 1967, Abramson, with representatives of civil rights groups, began picketing Respondent's premises. Dorbin joined the picket line on August 6. He was discharged but immediately reinstated with the advice that a mistake had been made. (R. 16; Tr. 103.)

The Board determined in its initial decision that Abramson and Dorbin had engaged in a concerted activity to persuade Respondent to hire additional negroes, and that they were discharged for engaging in that activity. The Board further held the said activity was protected under Section 7 of the Act, and therefore that the discharge of these employees was a violation of Section 8(a)(1) of the Act. The Board also held that Dorbin had been threatened with discharge in an independent violation of Section 8(a)(1) of the Act. Respondent was ordered to reinstate Abramson with payment of backpay and to post appropriate notice.

This Court, in its prior decision herein, held that if Abramson and Dorbin had not been represented by a collective bargaining agent their activities would be protected under Section 7 of the Act. However the Court stated in its opinion that because of the provisions of Section 9(a) of the Act such protection did not necessarily apply when there is an established collective bargaining representative having a contract with the employer and the employees do not act or seek to act through that representative. The Court remanded this case to the Board for further consideration of the question whether the employee activity

here involved was protected in view of the application of Section 9(a).

The Board, one member dissenting, reaffirmed its previous decision that Respondent interfered with the exercise of the employees' rights under Section 7 of the Act and thereby violated Section 8(a)(1) of the Act. The Board disposed of the question put by this Court for which the case was remanded, by stating that a finding that Abramson's and Dorbin's activities were unprotected because of the collective bargaining agreement between the Union and Respondent "would be offensive to public policy". No authority was cited in the Board's opinion for this conclusion.

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## ISSUE TO BE DETERMINED

Are the activities of Abramson and Dorbin here involved protected activities within the meaning of Section 7 of the Act, in view of the fact that the employees did not act or seek to act through the exclusive collective bargaining representative as required by Section 9(a) of the Act?

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## ARGUMENT

### I. RESPONDENT DID NOT VIOLATE SECTION 8(a)(1) OF THE ACT.

**A. Introduction.**

The Board in its opinion on remand did not consider either of two critical questions of fact presented in this proceedings. The first such question is whether

Abramson and Dorbin attempted to act through their exclusive bargaining representative, Local 640, before presenting their demand directly to the employer. The record herein, and the Board's findings below, indicate that the Union was bypassed completely. Second, the Board ignored the question whether the employees were attempting to bargain or whether instead they were presenting a grievance under Section 9(a) of the Act. The Board's opinion summarily disposes of both questions with the following statement:

> "The record does not establish whether Abramson and Dorbin had attempted to act through their established bargaining representative before addressing their concerted protest directly to their Employer. In our opinion, however, such a finding is not essential herein. Nor do we find it necessary, as suggested by the Court, to determine whether the employees were filing a grievance under the proviso to Section 9(a), or whether they were attempting to bargain individually with their Employer. For, in either event, the employees were not acting in derogation of their established bargaining agent by seeking to eliminate what they deemed to be a morally unconscionable, if not an unlawful, condition of employment."

The Board then deals with the question to which it was directed by this Court to apply its administrative expertise, by conclusively assuming that Abramson and Dorbin were acting in accord with and in furtherance of the lawful position of their collective bargaining agent. The opinion goes on to state:

> "For the Board to find, therefore, that the employees' otherwise protected concerted activities herein were rendered unprotected by virtue of an existing collective-bargaining agreement between the Union and the Respondent would be offensive to public policy."

No authority whatsoever is cited for this proposition.

**B. Section 9(a) of the Act Renders Unprotected the Activity of Abramson and Dorbin Because It Constituted an Attempt to Bargain Which Bypassed the Exclusive Bargaining Representative.**

The clear mandate of Section 9(a) of the Act is that employees must bargain through the collective bargaining representative if such exists.[1] The limited exception provided is with respect to personal grievances, which an employee may present directly, so long as the adjustment is not inconsistent with the collective bargaining agreement *and* the bargaining representative has been given an opportunity to be present at such adjustment. The purpose of the statute in so explicitly limiting private bargaining by employees was stated by the Supreme Court in *Medo*

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[1] "(a) Representatives designated or selected for the purposes of collective bargaining by the majority of the employees in a unit appropriate for such purposes, *shall be the exclusive representatives of all the employees in such unit for the purposes of collective bargaining in respect to rates of pay, wages, hours of employment, or other conditions of employment*: Provided, That any individual employee or group of employees shall have the right at any time to present grievances adjusted, without the intervention of the bargaining representative, as long as the adjustment is not inconsistent with the terms of a collective-bargaining contract or agreement then in effect: Provided further, That the bargaining representative has been given opportunity to be present at such adjustment." (Emphasis supplied.)

*Photo Supply Corp. v. NLRB,* 321 U.S. 678, in which the Court held that Section 9(a) placed on the employer the duty to bargain only with the representative and not with individual groups of employees. The opinion states:

> "That it is a violation of the essential principle of collective bargaining and an infringement of the Act for the employer to disregard the bargaining representative by negotiating with individual employees, whether a majority or a minority, with respect to wages, hours and working conditions was recognized by this Court in *J. I. Case Co. v. Labor Board,* 321 U.S. 332. The statute guarantees to all employees the right to bargain collectively through their chosen representatives. Bargaining carried on by the employer directly with the employees, whether a minority or majority, who have not revoked their designation of a bargaining agent, would be subversive of the mode of collective bargaining which the statute has ordained, as the Board, the expert body in this field, has found."

See also *Virginian Railway Co. v. System Federation,* 300 U.S. 515, in which the Supreme Court also held that the Act "imposes the affirmative duty to treat only with the representative and hence the negative duty to treat with no other."

The instant case is to be distinguished from such cases as *NLRB v. Washington Aluminum Co.,* 370 U.S. 9, where the employees had no bargaining agent. The long established and exclusive representative of Tanner's taxicab drivers was Local 640 of the Chauf-

feur's Union; also a collective bargaining agreement was in effect, and under it an established grievance procedure was available.

The Courts of Appeal have consistently upheld the exclusive representation principle set forth in Section 9(a). In *NLRB v. Draper Corp.* (CA 4th) 45 F. 2d 199, the court held that the firing of 41 employees who engaged in a "wildcat" strike did not constitute a violation of Section 8(a)(1) of the Act. The opinion states:

> "Even though the majority of the employees in an industry may have selected their bargaining agent and the agent may have been recognized by the employer, there can be no effective bargaining if small groups of employees are at liberty to ignore the bargaining agency thus set up, take particular matters into their own hands and deal independently with the employer. The whole purpose of the act is to give to the employees as a whole, through action of a majority, the right to bargain with the employer with respect to such matters as wages, hours and conditions of work."

See also *McQuay-Norris Manufactuing Co. v. NLRB* (C.A. 7th) 116 F. 2d 748; *Texarkana Bus Co. v. NLRB* (C.A. 8th) 119 F. 2d 480; *North Electric Manufacturing Co. v. NLRB* (C.A. 6th) 123 F. 2d 887.

The contention of the Board in response to the mandate of Section 9(a) is that "if there was an identity of goals between the Union and these protesting employees, the fact that the Union did not trigger the protest . . . would not render the employees'

conduct unprotected." Petitioner's brief, page 9. The next step in the argument is that since the bargaining representative was obliged to oppose racial discrimination, such identity of goals between the individual employees and the Union must have existed.

Several critical fallacies are present in this position, which we believe to be novel. First, Section 9(a) does not by its plain terms protect the exclusive bargaining power of the representative only in those situations in which the representative's goals are in conflict with those of individual employees or groups of employees who might seek to deal directly with the employer. The Act provides that the selected representative shall be the *exclusive representative of all the employees in the unit* for the purpose of bargaining in respect to conditions of employment. The purpose of this provision, as this Court observed in its previous opinion in this case, is "to encourage the practice and procedure of collective bargaining." The Court goes on to state:

> ". . . To that end the Act sets up an elaborate procedure whereby a collective bargaining representative of employees can be identified and designated and then gives to such a representative a preferred status in dealing with the employer in relation to terms and conditions of employment."

Thus it is manifest that Section 9(a) establishes a *procedure* for orderly collective bargaining, which neither the employer nor the employees may disregard. *Medo Photo Supply Corp., supra.* The applicability of this procedure does not depend upon

whether the goals of individual employees or groups of employees are identical to those of the Union, nor whether such goals are worthy. To sustain the Board's argument would be to place upon employers an intolerable burden of determining on a case by case basis whether it might safely bargain directly with individual employees, or whether doing so would constitute an unfair bargaining practice. Of course the effect of such a holding upon the status of the unions could be devastating.[2]

In the case at bar, the record does not disclose whether Local 640 supported the objectives of Abramson and Dorbin that Respondent hire additional negroes and vary the racial composition of its force of taxicab drivers. If we assume, as has the Board, that the Union must have shared these goals, the statutory requirement that the employees proceed through their bargaining representative is even more cogent. They had nothing to lose and a great deal to gain in seeking the assistance of Local 640.

None of the cases cited by the Board in its brief herein supports its argument that individual employees are permitted to bargain directly with the employer, bypassing the representative, in regard to racial hiring and policies. In *NLRB v. R. C. Can Company* (C. A. 5th) 328 F. 2d 974, a "quickie strike" by a substantial number of employees was held to be a protected activity because it was in support of objectives the union was then actively attempting

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[2]The AFL-CIO filed with the Board a brief as *amicus curiae* in the proceedings on remand.

to implement. Obviously the employee activity could not there undercut collective bargaining procedures, nor was the employer there required to choose between the Union and the individual employees. The same analysis applies to the similar situations in *Western Contracting Corporation v. NLRB* (C. A. 10th) 322 F. 2d 893, and *Hamilton v. NLRB* (C. A. 6th) 160 F. 2d 465, cert. den. 332 U. S. 762.

The Board's asumption that the position herein of the employees and Local 640 must have been identical does not, even if it is correct, pertain to the issue before the Court. Section 9(a) provides a *procedure for orderly collective bargaining. Medo Photo Supply Corp., supra.* Ignoring this procedure could only undercut the Union and its policies and programs designed to effect the hiring of Negroes. Permitting individual employees freely to bypass bargaining representatives in such a matter could obviously wreak havoc with the status of Unions at least among their minority group members, and might well militate against the ultimate attainment of civil rights objectives.

The Board seems to argue that Respondent was obliged to advise Abramson and Dorbin that they should proceed through the Union—also that the employer should have apprised the Union of the employees' complaint. No authority is cited for this novel contention. Obviously the employer cannot be responsible for conducting communication between the employees and their bargaining representative. In any case the exclusive bargaining power of the union

under Section 9(a) cannot be diminished by any such omission of the employer.

**C. Abramson's and Dorbin's Activity Was Not the Presenting of a Grievance Within the Meaning of Section 9(a) of the Act.**

The only circumstance in which Section 9(a) of the Act permits individual employees or a group of employees to bypass the collective bargaining representative is with respect to the presenting of personal grievances. The necessity of limiting this exception was very well pointed out by this Court in its earlier decision in the instant case:

> "If 'grievances' is held to cover any complaint or request of the employees relating to terms and conditions of employment, there may develop a sort of continuous 'collective-bargaining,' under the guise of presenting grievances, that could be inimicable to the effective operation of the collective-bargaining contract. If employees who thus present 'grievances' to their employer may also resort to a picket line when they think that the employer has not properly responded to their demands, the purposes of the Act might well be defeated. There appears to be a difference between collective bargaining and presenting grievances, else why did the Congress limit the proviso in section 9(a) to grievances? Thus the desire of employees for non-discriminatory hiring, while a proper subject for collective bargaining, may not be a proper basis for a grievance." *Tanner,* 5.

The Courts and the Board have consistently taken a restrictive view of the application of the proviso of Section 9(a) regarding grievances. In *Hughes Tool*

*Co. v. National Labor Relations Board* (C.C.A. 5th) 147 F. 2d 69, the Court analyzed the distinction between collective bargaining in respect to conditions of employment, and dealing with an employer regarding grievances. The opinion defines grievances as "usually the claims of individuals or small groups that their rights under the collective bargain have not been respected." The opinion further states:

> "These claims may involve no question of the meaning and scope of the bargain, *but only some question of fact or conduct peculiar to the employee, not affecting the unit.*" *Hughes*, 70. (Emphasis added.)

Another Court of Appeals has defined "grievances" as involving "secondary disputes" in contrast to disputes over working conditions. *West Texas Utilities Co. v. National Labor Relations Board* (C.A.D. of C.) 206 F.2d 442. The Board has held that wage inconsistencies involving individual employees are a proper subject for grievances. *B. F. Goodrich Co.,* 89 NLRB 1151.

Respondent contends that the racial composition of the employer's working force is manifestly in the nature of a working condition, and a matter for collective bargaining. This view is supported by the decision of the Supreme Court in *New Negro Alliance v. Sanitary Grocery Co.* 303 U.S. 552, which held that the picketing of a grocery store by a group of negroes for the purpose of enforcing a request that the store employ negroes, was an activity protected from injunction by the Norris-LaGuardia Act, 29 U.S.C., Chapter 6. The Court stated:

> "The Act does not concern itself with the background or the motives of the dispute. The desire for fair and equitable conditions of employment on the part of persons of any race, color, or persuasion, and the removal of discriminations against them by reason of their race or religious beliefs is quite as important to those concerned as fairness and equity in terms and conditions of employment can be to trade or craft unions or any form of labor organization or association. . ." *New Negro Alliance,* 561.

The Norris-LaGuardia Act applies to labor disputes including "any controversy concerning the terms or condition of employment, or concerning the association or representation of persons in negotiating, fixing, maintaining, changing, or seeking to arrange terms or conditions of employment." Section 13(c). See also *Steele v. Louisville & Nashville R.R. Co.* 323 U.S. 192; *Moore v. Illinois Central R. Co.* (C.C.A. 5th) 112 Fed. 959.

As the Court noted in its earlier opinion, many important collective bargaining agreements now contain provisions against discrimination by reason of race. *Tanner,* 4. Also, the Civil Rights Act of 1964, 42 U.S.C., Sec. 2000e-2(a), categorizes racial discrimination as a condition of employment. Section 703(a) (1) of the Act provides:

> (a) It shall be an unlawful employment practice for an employer—
>
> (1) to fail or refuse to hire or to discharge any individual, or otherwise to discriminate

against any individual with respect to his compensation, terms, conditions, or privileges of employment, because of such individual's race, color, religion, sex, or national origin;

The only reasonable interpretation of Section 9(a) of the National Labor Relations Act is that the racial composition of the employer's working force qualifies as a working condition within the meaning of the provision, and is a proper subject for the operation of the collective bargaining machinery. Bypassing the exclusive representative in such a matter could not only, as this court has recognized, be inimicable to the collective bargaining contract; it might also be inimicable to employees' civil rights by excluding the agency and the procedures with far greater capacity to secure a remedy than the efforts of individual employees.

Even if Abramson's and Dorbin's complaint were the proper subject for a grievance, Section 9(a) requires that the bargaining representative must have been given the opportunity to be present at the adjustment. The record does not indicate that Local 640 was given such opportunity, or that it was even notified of the demand.

In conclusion, Respondent respectfully urges that this Court not here interpret the Act, we believe for the first time, in such a manner that the hiring of negroes is removed from collective bargaining, and made the subject of sporadic tinkering by individuals such as that here indulged in by Abramson and Dorbin.

## II. THE CASE SHOULD BE REMANDED FOR DISPOSITION CONSISTENT WITH THE BOARD'S DECISION IN CASES PRESENTLY PENDING BEFORE THE BOARD WHICH WILL DETERMINE WHETHER AND TO WHAT EXTENT SUCCESSOR EMPLOYERS ARE OBLIGATED TO REMEDY THE UNFAIR LABOR PRACTICES ALLEGED AGAINST THE RESPONDENT.

Respondent herein is one of the employers involved in three cases now before the National Labor Relations Board, and presently pending decision by the Trial Examiner. These cases are Nos. 31-CA-40 (formerly 21-CA-6448), 31-CA-339, and 31-CA-479 (formerly 21-CA-7254), which have been consolidated for hearing. On August 9, 1967 the Board issued an order reopening the record and remanding the proceedings to the Regional Director for Region 31 for the purpose of arranging a further hearing before the Trial Examiner to determine whether, and if so to what extent and on what basis certain individuals doing business as Pacific Coast Transportation Company ("Pacific"), and West Coast Transportation Co., ("West Coast") are obligated to remedy the unfair labor practices alleged against Respondent herein, Tanner Motor Livery, Ltd.

The said Pacific acquired Respondent's taxicab service (the employer of Abramson and Dorbin) on or about July 19, 1965, and West Coast subsequently succeeded to the business. Respondent is no longer engaged in the taxicab business.

On June 11, 1968, the Trial Examiner issued his Supplemental Decision in Case No. 31-CA-40 in which it was held that Tanner ceased to be employer, within the meaning of Section 2(2) of the Act, of the em-

ployees of Tanner's taxicab business (which included Abramson and Dorbin) on October 5, 1965. The Supplemental Decision holds that Pacific succeeded Tanner as employer on October 5, 1965, and that West Coast succeeded as employer on December 31, 1965.

Tanner filed exceptions to the Examiner's Supplemental Decision, contending that it was succeeded by Pacific on July 19, 1965, the date specified by the parties for the transfer of the taxicab business.

Case No. 31-CA-40 has now been transferred to the Board and is pending decision, as are the related cases Nos. 31-CA-339 and 31-CA-479, in which the Trial Examiner issued his decision on June 25, 1968.

Since the unfair labor practices alleged against Respondent in the instant proceedings also involved employees of the taxicab service, and occurred prior to Respondent's sale of the business on or about July 19, 1965, the determination of the Board in Case No. 31-CA-40 and the related cases whether Pacific and West Coast are obligated to remedy the alleged unfair labor practices of Respondent is directly relevant to the order here presented for enforcement.

This objection was not urged before the Board because the order of the Board reopening the record and remanding the related cases for consideration of the question of the obligations of the successor entities for Respondent's alleged unfair labor practices had not been issued until August 9, 1967, well after completion of the Board's proceedings on remand in the instant case. The Board issued its Supplemental Decision and Order herein on June 30, 1967. Respond-

ent contends that there exist extraordinary circumstances within the meaning of Section 10(e) of the National Labor Relations Act.

Respondent respectfully submits that if the Court finds that Respondent violated the Act, the Board's request for enforcement should be denied and the case should be remanded in order that Pacific and West Coast be joined as respondents, and the case be disposed of consistent with the Board's decisions in Cases Nos. 31-CA-40, 31-CA-339 and 31-CA-479.

## CONCLUSION

For the reasons stated, it is respectfully requested that a decree enforcing the Board's Order in full, or in part, be denied.

Dated, San Francisco, California,
January 15, 1969.

Respectfully submitted,
BEROL, LOUGHRAN & GEERNAERT,
By BRUCE R. GEERNAERT,
JOHN O. HARGROVE,
*Attorneys for Respondent Tanner Motor Livery, Ltd.*

See this Vol. Additional papers.

IN THE

# United States Court of Appeals

## FOR THE NINTH CIRCUIT

| | |
|---|---|
| PAUL EDWARD SIMON, *Appellant,* vs. UNITED STATES OF AMERICA, *Appellee.* | No. 22,678 |

On Appeal from the Judgment of
The United States District Court
For the District of Arizona

# BRIEF FOR APPELLEE


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*Attorneys for Appellee*

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## TEXTS

IN THE

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On Appeal from the Judgment of
The United States District Court
For the District of Arizona

## BRIEF FOR APPELLEE

## I.

## JURISDICTIONAL STATEMENT OF FACTS

On June 14, 1967, the Federal Grand Jury sitting at Tucson, Arizona, returned an Indictment charging Paul Edward Simon, Appellant herein and Synthia Anne Simon in three

Counts. (Clerk's Transcript of Record, page 4. Hereinafter the Clerk's Transcript of Record will be referred to as "RC"; the Reporter's Transcript will be referred to as "RT," the number following will refer to the page, and the number following "L" will refer to the line; Appellant Paul Edward Simon will be referred to as Paul or Appellant, and Synthia Anne Simon will be referred to as "Synthia.")

The three counts charged as follows: Count I charged Paul and Synthia with a conspiracy to import 24 pounds, 1¼ ounces of marijuana in violation of 21 U.S.C. §176a. Count II charged Paul and Synthia with a substantive violation of 21 U.S.C. §176a, occurring on or about May 26, 1967, involving the said marijuana and ¼ ounce of Hashish. Count III charged Paul and Synthia with a substantive violation of 18 U.S.C. §545 involving 72 amphetamine and barbiturate pills and 27 percodan tablets (RC 4-6). Paul and Synthia appeared personally and by retained counsel, and pleaded not guilty on June 26, 1967 (RC, page 20).

Trial was held on October 26, 1967, before Judge James A. Walsh (RT 5). Before the Government rested, Government's counsel out of the hearing of the jury moved to dismiss Count I as to both defendants and Counts II and III as to Synthia Anne Simon and the Court granted the motion (RT 116, L 10-20).

Appellant moved for judgment of acquittal on the weight of the evidence and on the grounds the statute, 21 U.S.C. §176a, forced a defendant to incriminate himself (RT 118). The Court denied the motion (RT 118). Appellant offered his own testimony and rested (RT 135, L 22). Appellant's counsel did not renew his motion (See RT 135-136; counsel's argument, RT 136-144; 144-150; 150-153; Court's instructions

to the jury, 153-168; counsel had nothing further, RT 168, L 20-22).

The jury returned a verdict of guilty as to Counts II and III (RT 170, L 1-5).

On November 6, 1967, Appellant was adjudged guilty on Counts II and III and sentenced to five years on Count II and two years on Count III, to be served concurrently to sentence imposed on Count II (RC Item 7).

On November 6, 1967, Appellant filed Notice of Appeal (RC Item 8). Appellant remained on bond.

The Trial Court had jurisdiction by the provisions of 18 U.S.C. §3231. This Court has jurisdiction of this appeal by the provisions of 28 U.S.C. §1291.

## II.

## STATEMENT OF FACTS

On Friday, May 26, 1967, William Zimmerman was on duty at the Grand Avenue Gate, Nogales, Arizona, port-of-entry from Mexico (RT 19, L 1-16). Zimmerman saw Paul and Synthia enter the United States from Mexico in a car (RT 19, L 23 to 20, L 1). Synthia was lying in the back seat and Paul was driving (RT 20, L 6-8). He took no declaration but directed them to the Secondary Inspection area since they stated they were coming from Guaymas, Mexico (RT 20, L 13 to 21, L 9).

Zimmerman later went to the inspection area and saw Inspector Plemens and Eccleston removing packages from the springs of the rear seat and was told by them that a package

on the inspection table had been removed from under the dashboard (RT 22, L 9-24). He believed it was Eccleston who told him (RT 24, L 8-9).

Plemens testified that he asked Paul and Synthia for a declaration and they declared nothing (RT 27, L 6-9). Plemens testified that Eccleston, who was now stationed in the Virgin Islands (RT 26, L 19-23), had assisted him in the search of the car (RT 27, L 22-23). Plemens identified Government's exhibits 1 through 24 as the packages he and Eccleston removed from the rear seat springs (RT 28, L 13 to 30, L 17). Paul and Synthia were advised they were under arrest and their rights were read to them as follows:

> "A I told them that: 'You are both under arrest as suspects for smuggling marijuana and that you don't have to say anything. If you do waive your rights, desire to waive your rights, anything you say can be used against you; and that you are entitled to a lawyer of your choosing. If you can't furnish one yourself, that one will be provided for you at the proper time.' And I didn't attempt to question them then." (RT 40, L 21 to 41, L 7)

The Court held a hearing out of the presence of the jury and found the statement which follows voluntary and not in response to any question (RT 33, L 21 to 39, L 15). Paul apologized to his wife, stated he was willing to pay the tax (RT 42, L 6-8).

Plemens identified Government's Exhibit 51 and 52 by his initials and that these exhibits and Government's Exhibits 1 through 24 were turned over to Customs Agent John Dennis (RT 45, L 14 to 17).

Plemens identified the contents of Government's Exhibit 53 and that they were turned over to Agent Dennis (RT 50).

Francis Baker testified he saw a bag which appeared to be like Government's Exhibit 52 in the hands of one of the Inspectors while the car in question was being searched (RT 53, L 6-23). He could not state if it was Eccleston or Plemens, but it was the inspector standing by the passenger side (RT 54, L 4-11). Plemens stood on the driver's side (RT 49).

(Since the balance of the chain of custody is not in issue, it will not be set out.)

Government's Exhibit 54 was identified by Agent Dennis as being two pills he found on Paul's person (RT 70). (Upon observation by the jurors Exhibit 54 was similar to the tablets which were in Government's Exhibit 51).

Customs Port Investigator Everett Turner transported Paul to the Customs Agency for processing (RT 73, L 1-11). A hearing was held out of the presence of the jury (RT 73, L 16 to 75, L 8). The Court permitted the statement in (RT 75, L 8). Turner asked Paul if he was sure he didn't want to call an attorney and Paul replied "he thought he needed a marriage counselor worse than a lawyer." (RT 76, L 4-7)

Paul took the stand and testified as follows: That he and his wife, Synthia, had been staying in Ajijic, Mexico, and had driven up to Guaymas, Mexico, to visit friends and didn't find them at home (RT 119-120). They spent the night on the beach and next morning Synthia attempted to light a beach fire, and her leg was burned by gasoline (RT 121).

Paul attempted to start his car and then sought the aid of some four or five Mexicans who were on the beach also (RT 121). Two of them offered to drive them to a doctor they knew (RT 122, L 12-17). The doctor did not answer or was not at home (RT 122, L 19-23). The two Mexicans

then drove them to a pharmacy, where she was treated with an ointment and given something for the pain (RT 123, L 9-11). The two Mexicans were asked by Paul to try and bring his car back (RT 123, L 11-15). They were gone half an hour (RT 123, L 17-21). Paul testified that his wife preferred to return to the United States, even though it was four hours away (RT 123, L 23 to 124, L 3).

They arrived at the border and he asked Zimmerman for first aid, and was informed there was no first aid facility at the border (RT 124, L 25 to 125, L 3).

He then described the search and stated he apologized to his wife about the delay (RT 125).

After he was under arrest he may have said something similar to what Turner testified to (RT 127, L 10-13).

In cross-examination Paul identified the pills and the Zig-Zag cigarette papers, Government's Exhibit 55, which were found on his person (RT 132, L 18-20) and admitted he had no tobacco with him (RT 133, L 1-2). He denied seeing the manicured marijuana and the other contents of Government's Exhibit 53 (RT 133, L 3-5).

He denied offering to Plemens to pay the tax on the marijuana immediately after being arrested for smuggling marijuana (RT 134, L 22-25).

## III.

## OPPOSITION TO SPECIFICATION OF ERRORS

1. The Trial Court did not err in failing to grant the Mo-

tion for Acquittal as to Count II at the close of the Government's case.

2. The Trial Court did not err in failing to grant the Judgment of Acquittal as to Count III on the grounds that 21 U.S.C. §176a violates the privilege against self-incrimination.

## IV.

## SUMMARY OF ARGUMENT

1. The sentence imposed as to Count II was to run concurrently as to Count III and, therefore, the Court need not review the evidence as to Count III; furthermore, Appellant did not renew his motion at the close of all the evidence.

2. Compliance with 21 U.S.C. §176a would not constitute self-incrimination under Federal or State law.

## V.

## ARGUMENT

### 1. The sentence imposed as to Count II was to run concurrently as to Count III and, therefore, the Court need not review the evidence as to Count III; furthermore, Appellant did not renew his motion at the close of all the evidence.

This Circuit has held many times there is no need to review evidence on a separate count when the sentences are concurrent and do not exceed what could be imposed on either count. *Fenton v. United States* (9th Cir., 1962) 308 F.2d 246; *Castro v. United States* (9th Cir., 1963) 323 F.2d 683; *Page v. United States* (9th Cir., 1966) 356 F.2d 337.

Furthermore, Appellant did not renew his motion at the close of all the evidence. (Please see the Jurisdictional Statement herein.) Thus, this contention may be deemed wavied. *Robbins v. United States* (9th Cir., 1965) 345 F.2d 930.

However, should the Court review the evidence in the light most favorable to the Government, *Glasser v. United States* (1942) 315 U.S. 60, 62 S.Ct. 457, 86 L.Ed. 680, it would find that Zimmerman testified that he saw the bag on the inspection table next to the car and was told it was found under the dashboard (RT 22, L 16 to 23, L 7), and Plemens identified his initials on the brown paper bag. No objection was made to this testimony. Hearsay testimony is subject to objection, but if not objected to is competent evidence. *Udall's Arizona Law of Evidence* §12, page 24.

It is respectfully submitted that the conviction on Count III should be sustained since the sentence imposed was concurrent to the sentence imposed on Count II.

**2. Compliance with 21 U.S.C. §176a would not constitute self-incrimination under Federal or State law.**

Appellant argues that to comply with 21 U.S.C. §176a would compel one to incriminate oneself under the Federal marijuana laws citing *Marchetti v. United States* (1968) 390 U.S. 39, 19 L.Ed. 2d 889; *Grosso v. United States* (1968) 390 U.S. 62, 19 L.Ed 2d 923; *Haynes v. United States* (1968) 390 U.S. 85, 19 L.Ed. 2d ..................

He likens 26 U.S.C. §4701 and the sections following to those of the wagering tax, i.e., that they were designed to elicit information in use for prosecutions. It is respectfully submitted that they do not.

Sections 4701 through 4736 of Title 26, U.S.C., cover narcotic drugs, which drugs are not in issue in this case.

Sections 4741 through 4774 of Title 26 U.S.C., do cover marijuana.

Title 26 U.S.C. §4741 imposes the tax. Title 26 U.S.C. §4742 provides for the Treasury Secretary to issue order forms for transfer of marijuana. Title 26 U.S.C. §4743 provides the tax stamps shall be affixed to the order form. Title 26 U.S.C. §4744 prohibits possession of marijuana not in or from the original stamped package, and only Government and State officials are exempted. Title 26 U.S.C. §4745 provides for forfeiture of such marijuana.

Title 26 U.S.C. §4751 imposes a tax on importers, manufacturers, etc., producers, physicians, dentists, etc., persons engaged in research; persons not otherwise taxed and millers. Title 26 U.S.C. §4752 provides for the computation and liability for the tax. Title 26 U.S.C. §4753 provides for the registration of those upon whom the tax is imposed in 26 U.S.C. §4753. Title 26 U.S.C. §4754 requires the registrants to make returns upon demand. Title 26 U.S.C. §4755 prohibits failure to register and to pay the tax and exempts employees of those who have registered, and employees of common carriers, those delivering for a physican who has prescribed it, etc. Title 26 U.S.C. §4756 makes sections 4701 and 4721 applicable insofar as not inconsistent.

Title 26 U.S.C. §4761 defines person, marijuana producer, transfer or transferred. Title 26 U.S.C. §4762 provides for the administration of this part of the chapter in Puerto Rico and the Virgin Islands.

Title 26 U.S.C. §4771 provides for the method of payment of the stamps. Title 26 U.S.C. §4772 provides for the exemp-

tion of employees of those who have registered and paid the tax, and government and state officials. Title 26 U.S.C. §4773 provides for the inspection of returns, order forms and prescriptions. Title 26 U.S.C. §4774 provides for the territorial extent of the law.

Practically every state, if not all states, have adopted the Uniform Narcotic Act; Arizona's is found in Arizona Revised Statutes, Sections 36-1001 et seq.

A.R.S. §36-1001 (16) provides:

"'Official written order' means an order written on a form provided for that purpose by the United States commissioner of narcotics, under any laws of the United States making provision therefor, if such order forms are authorized and required by federal law, and if no such order form is provided, then on an official form provided for that purpose by the board of health."

A.R.S. §36-1002.05 provides in part:

"A. Every person who knowingly grows, plants, cultivates, harvests, dries, or processes any marijuana, or any part thereof, or who knowingly possesses any marijuana, except as otherwise provided by law, shall be punished by imprisonment in the state prison for not less than one year nor more than ten years but for the first offense the court may impose a fine not exceeding one thousand dollars, imprisonment in the county jail not exceeding one year or both."

A.R.S. §36-1002.06 provides in part:

"A. Every person who possesses for sale any marijuana except as otherwise provided by law shall be punished by imprisonment in the state prison for not less than two years nor more than ten years, and shall not be eligible for release upon completion of sentence, or on parole, or on

any other basis until he has served not less than two years in prison."

A.R.S. §36-1002.07 prohibits importation and transportation in the state.

A.R.S. §36-1005 provides:

"A. A duly licensed manufacturer or wholesaler may sell and dispense narcotic drugs to any of the following persons, but *only on official written orders:*

"1. A manufacturer, wholesaler or apothecary.

"2. A physician, osteopath, dentist or veterinarian.

"3. A person in charge of a hospital or laboratory, but only for use by or in such institutions for scientific or medical purposes.

"B. A duly licensed manufacturer or wholesaler may sell narcotic drugs to any of the following persons:

"1. *On a special written order* accompanied by a certificate of exemption, as required by the federal narcotic laws, to a person in the employ of the United States government or of any state, territorial, district, county, municipal or insular government, purchasing, receiving, possessing or dispensing narcotic drugs by reason of his official duties.

"2. A person in charge of any ship or aircraft, when such ship or aircraft is not in port, upon which no physician is regularly employed, for the actual medical needs of a person on board, and only in pursuance of a special order on a form approved by a commissioned medical officer or assistant surgeon of the United States public health service.

"3. A person in a foreign country if the provisions of the federal narcotic laws are complied with.

"C. *An official written order* for any narcotic drug shall be signed in duplicate by the person giving it or by his duly authorized agent. The original shall be presented to the person who sells or dispenses the narcotic drugs named

therein. In event of the acceptance of such order by said person, each party to the transaction shall preserve his copy of such order for a period of two years in such a way as to be readily accessible for inspection by any public officer or employee engaged in the enforcement of this article. It shall be deemed a compliance with this subsection if the parties to the transaction have complied with the federal narcotic laws, respecting the requirements governing the use of order forms.

"D. Possession of or control of narcotic drugs obtained as authorized by this section shall be lawful if in the regular course of business, occupation, profession, employment or duty of the possessor.

"E. A person in charge of a hospital or a laboratory, or in the employ of this or any other state, or of any political subdivision thereof, or a proper officer of a ship or aircraft, who obtains narcotic drugs under the provisions of this article shall administer, dispense or otherwise use such drugs only for scientific or medicinal purposes and within the scope of such employment or official duty." (emphasis added)

A.R.S. §36-1009, provides:

"A. Every physician, osteopath, dentist, veterinarian or other person who is authorized to administer or professionally use narcotic drugs, shall keep a record of such drugs received by him, and a record of all such drugs administered, dispensed or professionally used by him otherwise than by prescription. It shall, however, be deemed sufficient compliance with this subsection if any such person using small quantities of solutions or other preparations of such person using small quantities of solutions or other preparations of such drugs for local application, shall keep a record of the quantity, character and potency of such solutions or other preparations purchased or made up by him, and of the dates when purchased or made up, without

keeping a record of the amount of such solution or other preparation applied by him to individual patients. But no record need be kept of narcotic drugs administered, dispensed or professionally used in the treatment of any one patient, when the amount administered, dispensed or professionally used for that purpose does not exceed in any forty-eight consecutive hours:

"1. Four grains of opium.

"2. One half grain of morphine or any of its salts.

"3. Two grains of codeine or any of its salts.

"4. A quantity of any other narcotic drug or any combination of narcotic drugs that does not exceed in pharmacologic potency any one of the drugs named above in the quantity stated.

"B. Manufacturers and wholesalers shall keep records of all narcotic drugs compounded, mixed, cultivated, grown or by any other process produced or prepared, or received and disposed of by them, in accordance with the provisions of subsection E of this section.

"C. Apothecaries shall keep records of all narcotic drugs received and disposed of by them in accordance with the provisions of subsection E of this section.

"D. Every person who purchases for resale, or who sells narcotic drug preparations exempted by §36-1008, shall keep a record showing the quantities and kinds thereof received and sold, or disposed of otherwise, in accordance with the provisions of subsection E of this section.

"E. The form of records shall be prescribed by the board of health. The record of narcotic drugs received shall in every case show the date of receipt, the name and address of the person from whom received, and the kind and quantity of drugs received; the kind and quantity of narcotic drugs produced or removed from process of manufacture, and the date of such production or removal from process of

manufacture; and the record shall in every case show the proportion of morphine, cocaine, or ecgonine contained in or producible from crude opium or coca leaves received or produced, and the proportion of resin contained in or producible from the dried flowering or fruiting tops of the pistillate plant cannabis sativa L., from which the resin has not been extracted, received or produced. The record of all narcotic drugs sold, administered, dispensed or otherwise disposed of, shall show the date of selling, administering or dispensing, the name and address of the person to whom, or for whose use, or the owner and species of animal for which the drugs were sold, administered or dispensed, and the kind and quantity of drugs. Every such record shall be kept for a period of two years from the date of the transaction recorded. The keeping of a record required by or under the federal narcotic laws, containing substantially the same information as is specified above, shall constitute compliance with this section, except that every such record shall contain a detailed list of narcotic drugs lost, destroyed or stolen, if any, the kind and quantity of such drugs, and the date of the discovery of such loss, destruction or theft."

A.R.S. §36-1010, requires a dispenser of narcotic drugs to affix on drugs being dispensed the registry number, which as defined by A.R.S., §36-1001, subsection 18, means the number assigned to each person registered under the federal narcotic laws. A.R.S., §36-1014 provides that all narcotic drugs, the lawful possession of which is not established, should be delivered to a state officer for destruction by the United States commissioner of narcotics.

It is respectfully submitted that the term "lawful possession" encompasses possession that is lawful under Federal law. It can be argued that technically a person could be arrested under the State narcotic laws and upon a showing of a registry number by a person registered under the federal narcotic laws

or an order issued by the commissioner of narcotics would be acquitted only after trial by the raising of an affirmative defense. It can also be argued that it is an affirmative matter to be raised on a federal charge, i.e., that the possession is lawful under federal laws. However, the compliance with the Federal narcotic laws would constitute a lawful possession under State laws. A.R.S. §36-1011 and §36-1012, however, sets out that the restrictive provisions of the act shall not apply to agents, employees, etc., of those who lawfully may possess it.

Thus, compliance with Federal laws would constitute compliance with state laws.

The registration requirements are directed at controlling marijuana and are not directed principally at those who have failed to comply, which is the opposite of the National Firearms Act, 48 Stat. 1326 as was held in *Haynes v. United States, supra,* at page 96.

To apply the reasoning of the *Marchetti, Grosso* and *Haynes* cases to importation of marijuana would do the following:

A person entering the United States must declare purchases in a foreign country. If the purchases consisted of $110.00 of rugs, the purchaser must declare them and pay the duty, if any. If he does not declare them, the purchaser has violated 18 U.S.C. §545. If the purchases consisted of marijuana he does not have to declare them, because he would incriminate himself.

(Appellant's counsel even cites from Chief Justice Warren's dissent, *Marchetti v. United States, Grosso v. United States,* supra, at page 84 wherein Chief Justice Warren reasons that 18 U.S.C. §1407 would be declared unconstitutional. Title 19 C.F.R. §23.9a was amended to provide that a person on

re-entering the United States must be afforded the opportunity to register. Thus, a person upon re-entering the United States who has not registered is given the opportunity to register. He can no longer be prosecuted for not registering upon re-entering the country. Thus, there is no possibility of self-incrimination.)

It is respectfully submitted that 21 U.S.C. §176a and 18 U.S.C. §545 are not unconstitutional.

## VI.

## CONCLUSION

It is respectfully submitted the Appellant waived the issue of the sufficiency of the evidence on appeal and 21 U.S.C. §176a and 18 U.S.C. §545 are not unconstitutional.

Respectfully submitted,

EDWARD E. DAVIS
United States Attorney

Jo Ann D. Diamos

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Assistant United States Attorney
*Attorneys for Appellee*

I certify that, in connection with the preparation of this Brief, I have examined Rules 18, 19 and 39 of the United

States Court of Appeals for the Ninth Circuit, and that in my opinion, the foregoing Brief is in full compliance with those rules.

Jo Ann D. Diamos
Assistant United States Attorney

Three copies of the Brief of Appellee mailed this ..13th day of May, 1968, to:

Joseph H. Soble
114 Transamerica Building
Tucson, Arizona
*Attorney for Appellant*

No. 22,679

IN THE

# United States Court of Appeals

## For the Ninth Circuit

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SPRING CREST COMPANY, a corporation, THOMAS A. STUBBLEFIELD, JAMES F. BROOKS, and JOHN H. HANCOCK,

*Appellants,*

vs.

AMERICAN BEAUTI PLEAT, INC., a corporation, and ORVILLE T. STALL,

*Appellees.*

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## BRIEF FOR APPELLANTS

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PERNAU-WALSH PRINTING CO., SAN FRANCISCO

## Subject Index

## Table of Authorities Cited

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*Appellees.*

## BRIEF FOR APPELLANTS

(References in this brief to the Clerk's Transcript are designated as "Tr.", and references to the Reporter's Transcript of Proceedings during the trial are designated as "R". Throughout the brief, all emphasis is ours unless otherwise noted.)

### STATEMENT OF JURISDICTION

This action was commenced in the United States District Court for the Southern District of California, Central Division (now the Central District of California) by the filing of a Complaint for Patent Infringement of United States Letters Patent No. 3,090,431 (Tr. 2). Jurisdiction in the District Court was conferred by 35 U.S.C. 281 and 28 U.S.C. 1338(a). A counterclaim for declaratory relief for invalidity and non-infringement of

Letters Patent No. 3,090,431 was filed, the District Court having jurisdiction thereover by virtue of 28 U.S.C. 1338(a) and 2201.

This Court has jurisdiction to review the judgment (Tr. 292) entered in the District Court by Judge Westover by virtue of 28 U.S.C. 1294(4), said judgment being a final judgment. A timely notice of Appeal from said judgment was filed (Tr. 298).

## THE PARTIES

Appellants are the same parties as the plaintiffs in the District Court. Appellant Spring Crest Company (hereinafter referred to as "Spring Crest") is a California corporation, having its principal place of business in La Habra, California. Appellants Thomas A. Stubblefield, James F. Brooks and John H. Hancock are residents of King's Beach, Garden Grove and La Habra, California, respectively. Messrs. Stubblefield, Brooks and Hancock are the joint owners of the patent in suit No. 3,090,431 and Spring Crest is the exclusive licensee thereunder.

Appellees are the same as the defendants below. Appellee American Beauti Pleat, Inc. (hereinafter referred to as "Beauti Pleat") is a California corporation, having its principal place of business in Norwalk, California. Appellee Orville T. Stall is a resident of Whittier, California, and is the president of Beauti Pleat.

## CONCISE STATEMENT OF THE CASE

Following the sending of written notices of infringement to defendants (R. 272), plaintiffs commenced this

action on August 23, 1965 by the filing of a complaint (Tr. 2) for infringement of Patent No. 3,090,431.

This patent (Exhibit 1) relates to drapery hardware used in the installation of spring-pleated draperies. The patent has four claims, claims 1 and 2 being directed to the particular construction of the glide and connector member shown in the patent. Claims 3 and 4 are directed to a combination of elements comprising a track member, an undulant spring, and glide and connector members which are secured to the spring and which ride in the track as the draperies are traversed between open and closed positions.

Defendants filed their answer (Tr. 13) on March 17, 1966, setting up defenses of invalidity, non-infringement indefiniteness, file wrapper estoppel and inequitable conduct on plaintiffs' part because of alleged harassment of defendants. At the same time, defendants by way of counterclaim (Tr. 17) sought a declaratory judgment of invalidity and non-infringement of the patent in suit, No. 3,090,431, and of each claim thereof. Plaintiffs' answer to the counterclaim (Tr. 20) was filed on April 5, 1966.

On May 24, 1966, in answer to defendants' Interrogatory No. 29, plaintiffs stated (Tr. 50) that claim 3 of the patent in suit was the only claim alleged to be infringed by defendants.

On July 12, 1966, defendants filed their pre-trial statement (Tr. 101) and set forth in the "Issues to be tried by Court" that the validity of patent No. 3,090,431 and particularly claim 3 thereof and the infringement of claim 3 were to be tried. The issue of patent misuse was

raised by defendants for the first time in this pre-trial statement.

In plaintiffs' Memorandum of Contentions of Fact and Law (Tr. 111, filed July 13, 1966 and refiled on November 28, 1966, Tr. 228), claim 3 of the patent in suit was the only claim referred to as being in issue.

On November 10, 1966, plaintiffs and defendants filed a Stipulation of Facts Agreed Upon (Tr. 216), which stipulation again referred only to claim 3 of the patent in suit.

A pre-trial conference was held on November 14, 1966 (Tr. 269) but no formal pre-trial order was entered by the Court.

Trial was held on June 7, 8 and 9, 1967. Following a recess, the trial was completed on October 10 and 11, 1967. On June 7, 1967, defendants asserted that claims 1, 2 and 4 of the patent in suit were in issue in addition to claim 3 (R. 11). On June 8, 1967, plaintiffs moved to dismiss defendants' counterclaim insofar as it pertained to claims 1, 2 and 4, which motion was denied (R. 163-166).

At the close of the testimony on October 11, 1967, the Court heard oral argument and held that plaintiffs' glide was not infringed by defendants' glide, that there was no invention in this case and the Court requested defendants to prepare findings accordingly (R. 668). Defendants asked the Court if it cared to make a finding on patent misuse and the Court answered "no" (R. 668).

Findings of Fact and Conclusions of Law (Tr. 270) and Judgment (Tr. 292) were thereupon prepared by defendants and adopted and entered by the Court holding

claims 1, 2, 3 and 4 of the patent in suit to be invalid and that plaintiffs were guilty of patent misuse.

From this the plaintiffs have appealed.

---

## SPECIFICATION OF ERRORS

1. The District Court erred in holding claims 3 and 4 of Patent No. 3,090,431 invalid as defining aggregations or accumulations of old parts or elements, which, in aggregation, do not produce any new or different function or operation upon being brought together, and in which the whole does not exceed the sum of the parts.

2. The District Court erred in holding claims 3 and 4 of Patent No. 3,090,431 invalid as being obvious under 35 U.S.C. 103.

3. The District Court erred in adopting the portion of Finding of Fact No. 21 which states that "This was the first time that defendant Stall saw a Stubblefield glide."

4. The District Court erred in denying the motion to dismiss the counterclaim insofar as it related to claims 1 and 2 of Patent No. 3,090,431.

5. The District Court erred in holding claims 1 and 2 of Patent No. 3,090,431 invalid as being obvious under 35 U.S.C. 103.

6. The District Court erred in holding that appellants had misused Patent No. 3,090,431.

7. The District Court erred in not holding claim 3 of Patent No. 3,090,431 to be infringed if the claim is valid.

## SUMMARY OF ARGUMENT

Claim 3 of the patent in suit sets forth a combination of elements used in the spring-pleated drapery art, namely, a track, undulant spring pleater and a plurality of glides to suspend the pleater from the track. The spring pleater and track are old elements, but the glides and the specific manner in which they coact with the spring pleater and track are new and fully set forth in the claim.

Claim 3 was held invalid from the bench at the conclusion of the trial. An analysis of the remarks made by the Court shows clearly that the Court did not apply the proper test of invention. The Court stated that it was not interested in the ordinary skill in the art and instead indicated that if elements in a claim are old and unchanged, per se, then a claim to the combination is improper.

Such a "test" is clearly contrary to this Court's decision in *Hensley Equipment Company v. Esco Corporation*, 375 F.2d 432, 1967, wherein a claim to a combination of elements, all old in the art, was held valid where there was a new coaction of the elements.

In the present case a new coaction exists. The invention achieves significantly superior and unexpected results. The Court acknowledged that there was no question but what it was an advance in the art.

Despite the fact that the Court was not interested in the ordinary skill in the art, findings prepared by appellees were adopted holding claim 3 to be invalid as being obvious to one of ordinary skill in the art. The record and evidence clearly show there is no credible basis for

this. The prior art devices actually in use were unsuccessful. The two prior art patents relied upon (one 25 years old and the other 73 years old) show a different type of drapery installation and disclose, as in *Hensley,* less than the entire combination claimed. A substitution of the elements disclosed in such patents into the claimed combination results in inoperative apparatuses. Appellee Stall, who had 21 years of experience in drapery hardware, could not tell with any certainty how devices of the prior art patents relied upon were designed to operate. Only with full knowledge of the present patent could he take a portion of these prior art patents, reconstruct them and put them into a new and different combination in order to arrive at something which would be the same as that claimed. This does not constitute obviousness.

The Court also held claims 1 and 2 of the patent to be invalid. There was no justiciable controversy with respect to these claims, and the claims are quite different in scope as compared to claims 3 and 4. No testimony was taken concerning these claims. No finding was made which adequately shows the reasoning of the Court upon which these claims are invalid. The holding of invalidity of these claims is unnecessary, improper and insufficient, and should be stricken.

The Court also held that patent misuse existed based upon an agreement of appellant Spring Crest to pay royalties upon drapery hardware parts, some patented, some not, for parts designed by appellant Stubblefield. There is no legal basis for such holding, and in fact it is plain from the record that there was no intention of the Court to find misuse.

## ARGUMENT

### BACKGROUND OF THE INVENTION

> "(W)hat has been done here is very beneficial. I do not think there is any question about that. It is an advance in the art, and there is no question about that." (R. 654)

These are the words used by the Court to describe the invention of the patent in suit.

The Stubblefield patent in suit No. 3,090,431 relates to the particular art of spring-pleated traverse drapery installations. The drawings of this patent are shown in Insert No. 1 opposite hereto. In general, spring-pleated draperies have a narrow strip of spring metal formed into a serpentine, or undulant, spring which is sewn into the upper hem of a drapery. Such a spring is shown in green on the patent drawings and is generally referred to as a "spring pleater". The main functions of the spring pleater are to form uniform pleats in the drapery and to maintain such pleats as the drapery is pulled between its open and closed positions. The position of the spring pleater 11 shown in solid lines on Fig. 6 of the Stubblefield patent is that when the drapes are pulled to their open position (as in Fig. 1). The dotted line position of the spring pleater 11 in Fig. 6 illustrates the condition when the drapes are drawn closed.

Such installations in general also require a track (blue) and glides (red) of some sort which are connected to the spring pleater and which ride back and forth in the track to support the draperies as they are opened and closed.

May 21, 1963 T. A. STUBBLEFIELD 3,090,431

DRAPERY SUPPORTING AND PLEATING APPARATUS

Filed March 29, 1961

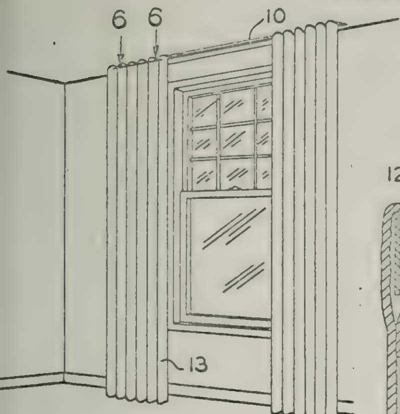



FIG. 1

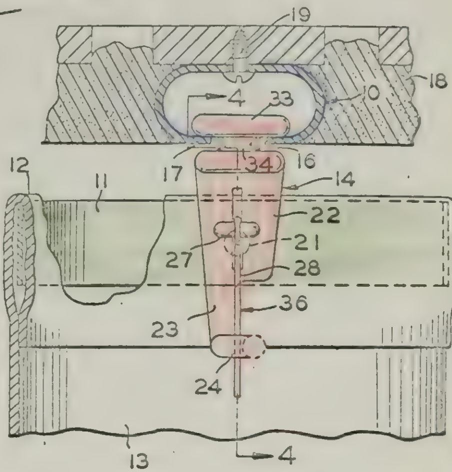



FIG. 2

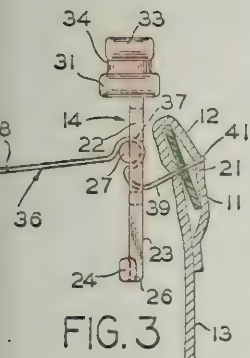



FIG. 3

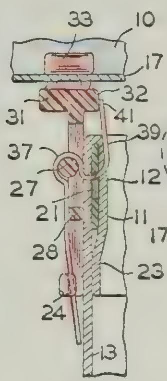



FIG. 4

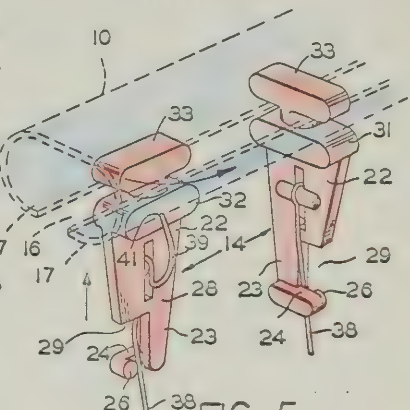



FIG. 5

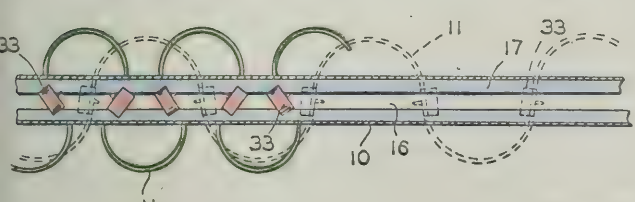



FIG. 6

INVENTOR.
THOMAS A. STUBBLEFIELD

BY [signature]

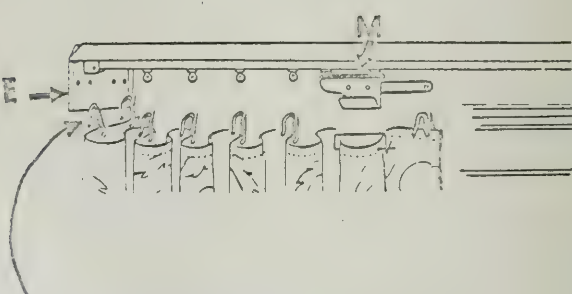
ATTORNEY

Insert No. 1

#613 Molded Nylon Ceiling Snap-in Carrier. Can be added or removed from track without removing end pulleys. Full pkg.: 1,000—500—100

#618 Nylon Ceiling Carrier with heavy wire swivel eyelet. Full pkg.—1000, 500, 100.

#608 One-piece Button Type All-nylon Ceiling Carrier. Full pkg.: 1,000—500—100




Pin-on Hooks

Insert No. 2

The use of spring-pleated draperies began in about 1946 when spring pleaters were first developed by appellee Stall (R. 470). Prior to the present invention, various glides had been used commercially to suspend the spring-pleated draperies from the tracks, the major varieties being those shown on Insert No. 2 on the opposite page, namely the one-piece button-type glide (#608, Ex. I), the nylon ceiling glide with heavy wire swivel eyelet (#618, Ex. I) and the one-piece Wilcox nylon snap-in glide (#613, Ex. I).

The one-piece button glides (#608) and wire eyelet glides (#618) must be inserted into the end of the track, generally in the shop when the track was assembled prior to delivering it to the job where it was to be installed (R. 34). The draperies were connected to the eyelets of the button glides by means of pin-on hooks shown on Insert No. 2 (Ex. 8). These hooks had one end thereof passing through holes formed in the spring pleater and through the upper hem of the drapery and the other end passing through an eyelet of the button glides.

This type of installation had several distinct disadvantages. First of all, the top of the drapery hung down from the track sufficiently far that some type of cornice was required to conceal traverse rod and the gap between the rod and the top of the drapery (R. 26, 33). Secondly, each pin-on hook had to be installed on the job, i.e., first secured to the drapery and then to an eyelet of a glide, which made for a very time-consuming operation (R. 33).

In order to overcome the hang-down gap and achieve a "close hook-up" arrangement so that the cornices could be eliminated, efforts were made to secure the spring-

pleated drapery directly to the wire eyelet of the button glides by means of a "pin and gripper" device (similar in principle to a tie pin that has a sharpened post sticking through the tie and shirt and held by a gripper engaging the end of the post (R. 35).)

This type of installation again had several distinct disadvantages. Whereas the pin-on hooks could be inserted through the spring pleater holes and drapery hem while the workman was on the floor, this could not be done with the pin and gripper method. Instead, the workman would have to mount a ladder, hold the draperies in one hand and with the other hand push the pin through the spring pleater hole, then through the eyelet of the glides which had previously been installed in the track, and then push the gripper member onto the end of the pin. Such a method was quite time-consuming (R. 37-39).

In addition, much trouble was encountered with the gripper members because they had an unfortunate tendency to fall off the pins so that the drapery came free from the glide. Such failure resulted in "call-backs" wherein the installer would have to send a workman back to the job to repin the drapery to the glides (R. 39). The cost of call-backs was absorbed by the installer (R. 47).

In an effort to solve these problems, the use of the Wilcox snap-in glide (#613, Ex. I) was adopted. These glides had the advantage that they could be installed, by pin and grippers, to the spring pleater while the workman was on the floor. After these glides had been secured to the drapery, the workman would then bring the upper hem of the drapery up to the track. The legs

of the glide would then be compressed together so that they could be inserted through the gap in the track, after which they would spring back and engage both sides of the track (R. 45).

Although the Wilcox glide eliminated the necessity of first installing the glides in the track, as was necessary with the button glides, it too had several distinct disadvantages in use. First of all, difficulty was experienced in compressing and inserting the legs of the glide through the track. Usually a tool, such as a screwdriver, was needed to compress the legs together so that the second leg would go through the track gap after the first leg had been inserted therein (R. 560). Secondly, it was found that tugs on the drapery, such as a child might give, after the drapery had been installed caused the Wilcox glide to pull out of the track. This again required service call-backs (R. 46). Thirdly, the pin and grippers used to secure the glides to the drapery had a tendency to come apart, as they had when used with the button glides (R. 46, 561).

It was this background of failures to achieve a satisfactory close hook-up spring-pleated drapery installation which led to the invention of the Stubblefield patent in suit.

Mr. Stubblefield, who at the time worked as a drapery installer, devised the glide shown in red on the patent drawings, Insert No. 1. This glide has a pin integral therewith which has an end adapted to pass through the spring pleater hole and drapery hem, the other end of the pin being then snapped into place on the body of the

glide to prevent accidental dislodgment of the glide from the drapery (R. 91).

The attachment of the glide to the drapery locks the glide thereto so that the head of the glide is held upright (R. 146). Also, the glide cannot turn about a vertical axis relative to the spring pleater but can only so turn if the spring pleater to which it was attached is flexed.

After all of the glides have been secured to the drapery, with one glide attached to each pleat of the drapery, the workman brings the upper hem of the drapery, with the heads of the glides pointing upwardly, up to the track. The heads of the glides are T-shaped, having a width slightly less than the width of the gap in the track and a length greater than the gap width.

Installation of the glides in the track is a very simple procedure, particularly as compared to the hardware previously used. Starting from one end of the drapery, the workman merely grasps the spring pleater in the drapery hem adjacent to a glide connected thereto, twists his wrist to flex the pleater to a position wherein the head of the glide is parallel to the track gap, moves the glide head up into the track and releases the pleater. The return of the flexed spring pleater to its normal position automatically turns the head of the glide so that the ends of the T-shaped heads ride in and on the track on opposite sides of the gap. Each glide would be inserted in the same way, with a simple twist of the wrist to flex the portion of the pleater to which the glide is attached so that it could be put into the track followed by a release of the pleater (R. 100-101).

Such installation does not require any handling of the glide at all, in contrast to all of the prior art spring pleater installations (R. 147).

After installation, the glides operate as follows: As the drapery is opened and closed, the spring pleater flexes and expands or contracts between the full and dotted-line positions of Fig. 6 of the patent in suit and the glides move along the track. The flexure of the spring causes the glides to turn in the track about a vertical axis, but the heads of the glides are so oriented to the spring pleater that even though the glides turn about a vertical axis, the heads will at all times be maintained by the spring pleater so that they are substantially crosswise to the track gap and will ride on both sides of the track and not fall out.

If it is desired to take the draperies down for cleaning, release from the track again is a simple matter. Each section of the spring pleater to which a glide is secured is merely twisted to align the head of the glide with the gap in the track, and the weight of the drapery will pull the glide down free from the track. This action is repeated until all glides have been removed from the track.

In use, the invention has proven very successful. One unexpected advantage of the invention was that the glides could be attached to the draperies back in the workroom when the draperies were made up and then transported to the job with the glides already attached (R. 91, 100). This had been tried with prior glides, but unsuccessfully because the parts would not stay attached to the draperies during transport (R. 91, 92). Another unexpected

advantage of the invention resided in the fact that it was found that the glides did not have to be removed from the draperies during cleaning, an advantage not had by any of the prior devices (R. 144, 145).

Although it was anticipated that drapery installations could be made easily, it was found that installations could be made much more rapidly than the close hook-up installations previously made; in fact, about three times as fast (R. 141, 144).

After the glide of the patent in suit had been sold by appellants for many months beginning in 1960 (R. 601), appellees designed and came on the market in May of 1961 with their version of the invention (Ex. AF). The specific design of the body portion of appellees' glide is somewhat different from that shown in the patent in suit. However, as the Court below stated, when appellees' or appellants' glides are used in combination with a spring pleater and track they "operate in exactly the same way" and "they produce exactly the same results, exactly" (R. 633). Appellants' and appellees' commercial devices are shown in Insert No. 3, opposite hereto.

Appellees were unstinting in their praise of the patented concept, as witness their remarks in the advertising of their product (Ex. AF):

> "Beauti Pleat will soon introduce a brand new product. No more pin hooks! No more master carrier pins! New improved lock! Entirely new end plate! Plus many more advanced design features. Absolutely nothing else even similar to it is on the market! Our new slogan will be: 'Just a twist of the wrist'! We are field-testing it now here at Beauti

## INSERTING PIN-ON GLIDE IN SPRING CREST PLEATER:

The pin-on glides are distributed along the pleater the same way as the pin-on hooks (above). Use pin-on hooks in both side hems for return-to-wall and center overlap. These pin-on hooks should be inserted 1½" down from top of drapery.
NOTE. ALWAYS ATTACH GLIDE TO BACK SIDE OF DRAPERY AND PLEATER. INSERT THE *SMALL* END OF THE WIRE CLIP THROUGH PLEATER HOLE. ENGAGE LONG END OF CLIP INTO SLOT AT BOTTOM OF GLIDE AS ILLUSTRATED.

## HANGING DRAPERIES (PIN-ON GLIDE):

Starting at the center of the rod, insert the glides of the first pleat on each side of the master carrier. Then insert remaining glides into the track of the Spring Crest Rod. To insert glide into track, (see illustration), grip pleat as shown. This will rotate the glide so that it will enter the track opening. Now **PUSH UPWARD** until it stops. Next, release pleater. Glide will turn and engage. Insertion is completed. Repeat this procedure for all glides except the last. This should be inserted into the slot between the cord pull and the track end cap. Finally, engage pin-on hook in the return bar and overlap bar at center.
NOTE. BE SURE TO PUSH EXCESS FABRIC AROUND TO RECESSED PLEATS TO PREVENT PUCKERING AT THE FRONT.

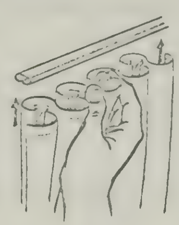


Exhibit 21 - Appellants' Commercial Device

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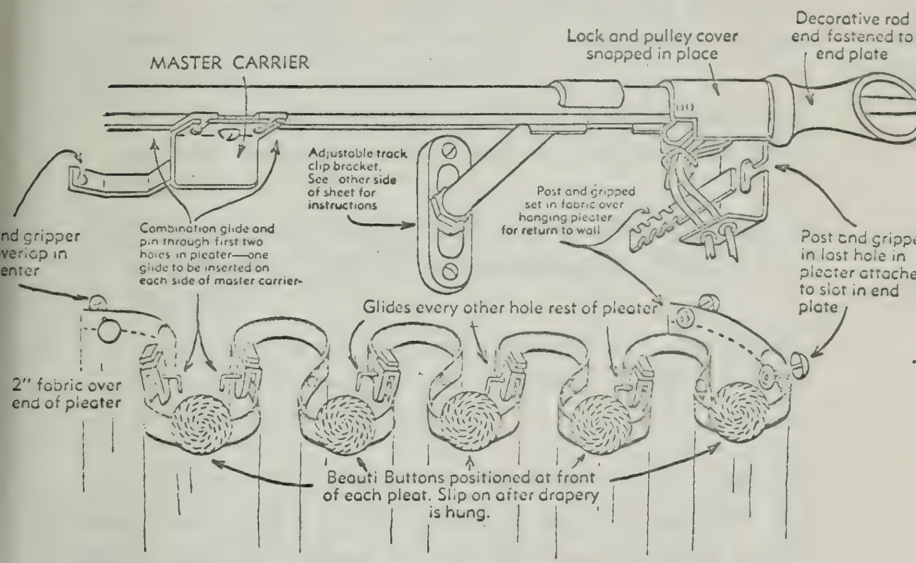
**COMBINATION GLIDE AND HOOK** — No more loose pin-on hooks. Attach or detach from pleater (in heading of fabric) by simply pressing one side or the other of the built in pin. The glides slip into the track by merely twisting sideways and are held in place by tension of the pleater. The post (pin) with gripper which is used in end plate and return bar and also overlap bar can be attached before hanging drapery.




### HANGING DRAPERY

Start with the first pleat by inserting a glide on each side of the master carrier. Snap the other glides in the track until you reach the last pleat where a post and gripper is used. It is fitted in the slot of the end plate. The post and grippers at the ends of the fabric fit the wall return bar and the overlap bar.



Exhibit 28 - Appellees' Commercial Device

> Pleat Nor. Cal. The reports are wonderful and our own staff is highly pleased and enthusiastic!
>
> "This product will replace our 'B' hardware and will be the same price. * * *"

(The "B" hardware was appellees' pin and gripper hardware (R. 339).)

The Court below likewise recognized the worth of the invention:

> "I will admit that probably this has been a great advance in the art. I mean by that that these glides can be attached to the draperies in the shop, and they can be installed very easily by the operators when they go out to install them. All they have to do is to take the drapery to which has been connected the spring and the glide and insert it into the track. * * *" (R. 188-189)
>
> "* * * although this seems to be a very small commodity, nevertheless they seem to be very valuable." (R. 456)
>
> "There is no question that that is advantageous. It is desirable. There is no question about that. * * *" (R. 638)
>
> "I know that that is very desirable. I don't think there is any question about that. I think it is an advance in the art." (R. 648)

How, then, could the Court below have ruled from the bench that claim 3 of the patent in suit was invalid? We submit that the reason is that the Court applied an incorrect test of invention to the facts in this case. Although the proper test of invention is one of "obviousness" (and although there were subsequently adopted

findings and conclusions on this point, which are discussed hereinafter), it is clear that this test was not considered by the Court during final argument, in view of its remark:

> "The Court: *I am not interested in the ordinary skill in the art.* I am just interested in whether or not the attaching of the glide, of the plaintiffs' glide on the defendants' glide, to the spring pleater is invention."

---

**THE DISTRICT COURT ERRED IN HOLDING CLAIMS 3 AND 4 OF THE PATENT IN SUIT INVALID AS DEFINING AN INVALID COMBINATION OF ELEMENTS. (SPECIFICATION OF ERROR NO. 1)**

It is plain from the record that the chief, if not only, reason that claim 3 was held invalid was a belief on the part of the Court that the claim is to an improper combination of elements.

Claim 3 is as follows:

> A drapery-supporting assembly, which comprises: an elongated undulant spring disposed in a horizontal plane and adapted to be mounted along the upper hem of a drapery to cause said drapery to assume a corresponding undulant shape; an elongated drapery track having two opposed track portions separated by a gap of predetermined width, said track portions and said gap being disposed generally in a horizontal plane and above said spring; a plurality of glide and connector means mounted at spaced points along said spring to slidingly support the undulations of said spring from said track as said spring is extended and shortened during opening and closing of the drapery, each of said glide and connector means including an elongated shoe the width of which

in a horizontal plane is less than said predetermined gap width whereby said shoes may be passed upwardly and downwardly through said gap when in positions in substantial alignment therewith, the length of each of said shoes in a horizontal plane being substantially greater than said predetermined gap width whereby the end portions of said shoes will remain slidingly supported on said opposed track portions when said shoes are in various positions substantially transverse to said gap, said shoes being disposed substantially transverse to said gap in supported relationship on said opposed track portions, each of said glide and connector means further including a connector portion connected with said shoe intermediate said end portions thereof, the connection between said connector portion and said shoe being adapted to prevent rotation of said connector portion relative to said shoe about a generally vertical axis, said connector portion extending downwardly through said gap and being sufficiently small in horizontal dimension that said shoe may rotate about a vertical axis between said position in substantial alignment with said gap and said positions substantially transverse thereto without effecting spreading apart of said opposed track portions, each of said glide and connector means further including means to connect said connector portion to said spring and to prevent substantial rotation of said connector portion relative to said spring about a generally vertical axis, said last-named means being so related to said connector portion, to said shoe and to said spring that said shoe will remain in said positions substantially transverse to said track despite movement of the undulations of said spring during normal extending and shortening of said spring to open and close the drapery; each of said

glide and connector means and the associated undulation of said spring being adapted to be manually twisted about a vertical axis to bring the associated shoe into substantial alignment with said gap for passing of said shoe through said gap during assembly or disassembly of said glide and connector means with said track.

(Claim 4 is dependent upon claim 3, and is essentially of the same scope except for additional limitations not utilized by appellees. Appellants did not charge appelles with infringing this claim, but the validity thereof should rise or fall with claim 3.)

For purposes of simplification, claim 3 can be broken down into three major elements: (a) an undulant spring (the spring pleater), (b) a track, and (c) a plurality of glides. Each glide has the following characteristics: an elongated shoe (the T-shaped head) having a width less than the track gap width and a length substantially greater than the track gap width so that the shoe will remain slidingly supported by the track when the shoe is in various crosswise positions in the track, a connector portion affixed to the shoe so that it cannot turn relative to the shoe, and means to attach the connector portion to the spring pleater.

Claim 3 specifically relates the elements to each other so that the following results are obtained:

(1) The glides are connected to the spring pleater so that they cannot turn relative to the spring pleater about a vertical axis;

(2) The glides are turned in the track by the spring pleater without spreading the track gap;

(3) As the spring pleater contracts and expands during normal opening and closing of the draperies, it will move the glides along the track and will turn the glides, but at the same time the spring pleater will maintain the glides sufficiently crosswise of the track so they will not inadvertently fall out;

(4) The spring pleater can be manually twisted from its normal position to align the shoes with the track gap for installation or removal of the draperies.

In this combination, the track by itself is admittedly an old and unchanged element. Also, the spring pleater is admittedly an old and unchanged element. Further, the same track and the same spring pleater had been previously used in other combinations with glide and connector means, such as with the button glides and pin-on hooks or with Wilcox glides.

In the combination as set forth in claim 3, the only new elements, by themselves, are the particular plurality of glides. However, the claim sets forth with great preciseness the manner in which the spring pleater and track both cooperate with the glides and with each other to achieve the desired results enumerated above.

It is clear that the Court considered claim 3 to be fundamentally unpatentable because of the fact that the track and spring pleater were old elements. During the trial the Court made the following comments:

> "There is no question that the track itself is old in the art. You cannot claim any priority on the track." (R. 183)
>
> "The spring is old in the art, so you cannot claim any priority for the spring." (R. 183)

> "The only thing new and the only thing that you can claim a priority on is the glide." (R. 184)
>
> "* * * the trouble is that you are taking your glide and you are combining it with things that are in the public domain, and then you are trying to claim a priority upon all the things that you have combined it with.
>
> "Not only are you claiming a priority from the glide, but you are claiming a priority upon the things which the glide touches." (R. 194)

At the time of final argument, the Court stated:

> "Everything here is old in the art except possibly the glide which has been manufactured by the plaintiff. * * *" (R. 630)
>
> "* * * you can't claim anything from the spring pleater. There is nothing there that you have done that you have added to the spring pleater. You haven't even added a hole to the spring pleater." (R. 639)

The clear import from the above remarks is that the Court was of the belief that if several of the elements of a combination claim are old and unchanged, per se, then a claim to the combination cannot properly be made.

Such belief is, of course, contrary to law. As, for example, in *Hensley Equipment Company v. Esco Corporation,* 375 F.2d 432 (C.A. 9, 1967), claim 8 of the patent there in issue described a combination of twelve mechanical elements, *each old in the art.* This Court upheld the validity of the claim, stating that the first factor to be considered was whether claim 8 described a novel combination as compared to the prior art, and particularly

whether the features of the claim, while individually old in the art, coacted in the claimed combination to bring about a new result.

In the present matter there is a new cooperation between the admittedly old spring pleater and the new glides. The glides are secured to the spring pleater so that the heads of the glides are held upright at all times for insertion into the track. This is an important consideration, for it enables such insertion to be made without any necessity for handling the glides after they are attached to the drapery (R. 146). In the only other spring pleater installation in which the glides could be first attached to the drapery before the glides were inserted in the track (namely, the installations using the Wilcox glides), the glides could rotate about the pin and gripper connection to the drapery so that the head of the Wilcox glides would swing downwardly. As a result, it was necessary to handle such glides as they were inserted into the track (R. 147).

More importantly, the present glides and spring pleater cooperate with each other and with the track as the drapery is installed so that a mere twist of the pleater will enable the head of the glides to be aligned with the track gap in order that the heads can be inserted freely into the track, followed by a release of the pleater to bring the glides automatically to a position wherein they will not fall out of the track (R. 101). Such a cooperation is not found in any prior art combination. In a Wilcox installation, the split portions of the glides had to be compressed to get the glides into the track, and the spring-back of the glides themselves held the glides in the track.

Installations with button glides are, of course, completely different because the glides are already installed in the track and the draperies are hung therefrom.

There is a similar new cooperation between the elements of claim 3 in that draperies can be taken down in a reverse manner by a mere twist of the wrist applied to the spring pleater.

There is also a new cooperation between the spring pleater, glides and track after the draperies are hung and as they are opened and closed. As explained previously, the glides must turn about a vertical axis as they slide back and forth in the track during opening and closing of the draperies. The glides and track cooperate so that the glides can turn freely in the track without binding. The spring pleater cooperates with the glides and track so that during such opening and closing the glides are maintained by the pleater sufficiently crosswise of the track, even though turning therein, so that the glides do not fall out.

This function is new. In the prior art installations the glides (e.g., the button and Wilcox glides) could and did turn in the track as they moved back and forth along the track. However, these glides were designed so that they could be rotated through a full 360° turn without ever coming to a position wherein they could pass down through the track gap. As a consequence there was no necessity for connecting such glides to the spring pleater in such manner as to prevent rotation of the glides about a vertical axis relative to the spring pleater.

As has been discussed previously, the present invention had several unexpected results: the speed of installa-

tion was three times as great as previous methods, the glides could be installed on the draperies in the workroom and carried to the job, and the glide could be left in place on the draperies during cleaning thereof.

From the foregoing, it is quite evident that claim 3 sets forth a new combination of elements, even though the track and spring pleater per se are old. A new result has plainly been brought about, as recognized by the Court below: "What has been done here is very beneficial. I do not think there is any question about that. It is an advance in the art, and there is no question about that." (R. 654)

Quite plainly the Court below did not apply the proper test of combination claims, as set forth in *Hensley,* to claim 3 and the conclusion of invalidity as setting forth an aggregation should be reversed.

Parenthetically, it should be noted that the Court below was concerned about the effect of holding a claim to the combination valid in that it would withdraw from the public things which were in the public domain, namely, the track and spring pleater (R. 194). However, no such result would occur. The public is and would be free to use the track and spring pleater with any glides with which they had been used previously. Also, the track and spring pleater could be used with any glides that may hereafter be invented as long as such glides do not cooperate with the spring pleater and track in the very specific manner set forth in claim 3.

**THE DISTRICT COURT ERRED IN HOLDING CLAIMS 3 AND 4 INVALID AS BEING OBVIOUS. (SPECIFICATION OF ERROR NO. 2)**

Although the Court was not "interested in the ordinary skill of the art" (R. 650), findings of fact were subsequently adopted holding that the invention of claim 3 did not define any invention and that it would have been obvious to one skilled in the art to substitute a glide substantially as shown in the Silverman patent No. 2,320,308 (Ex. K) or the Lounsbury patent No. 568,091 (Ex. M) for the glides previously used in the spring pleated drapery art (Findings of Fact Nos. 42 and 49, Tr. 283, 284).

It is submitted that the testimony and evidence simply do not support such findings, nor the conclusions of invalidity based thereupon.

---

**THE INVENTION OF CLAIMS 3 AND 4 IS NOT OBVIOUS IN VIEW OF THE SILVERMAN PATENT NO. 2,320,308**

As pointed out previously, at the time of the present invention there was nothing commercially available which was successful for the purpose of making a close hook-up installation of spring-pleated draperies.

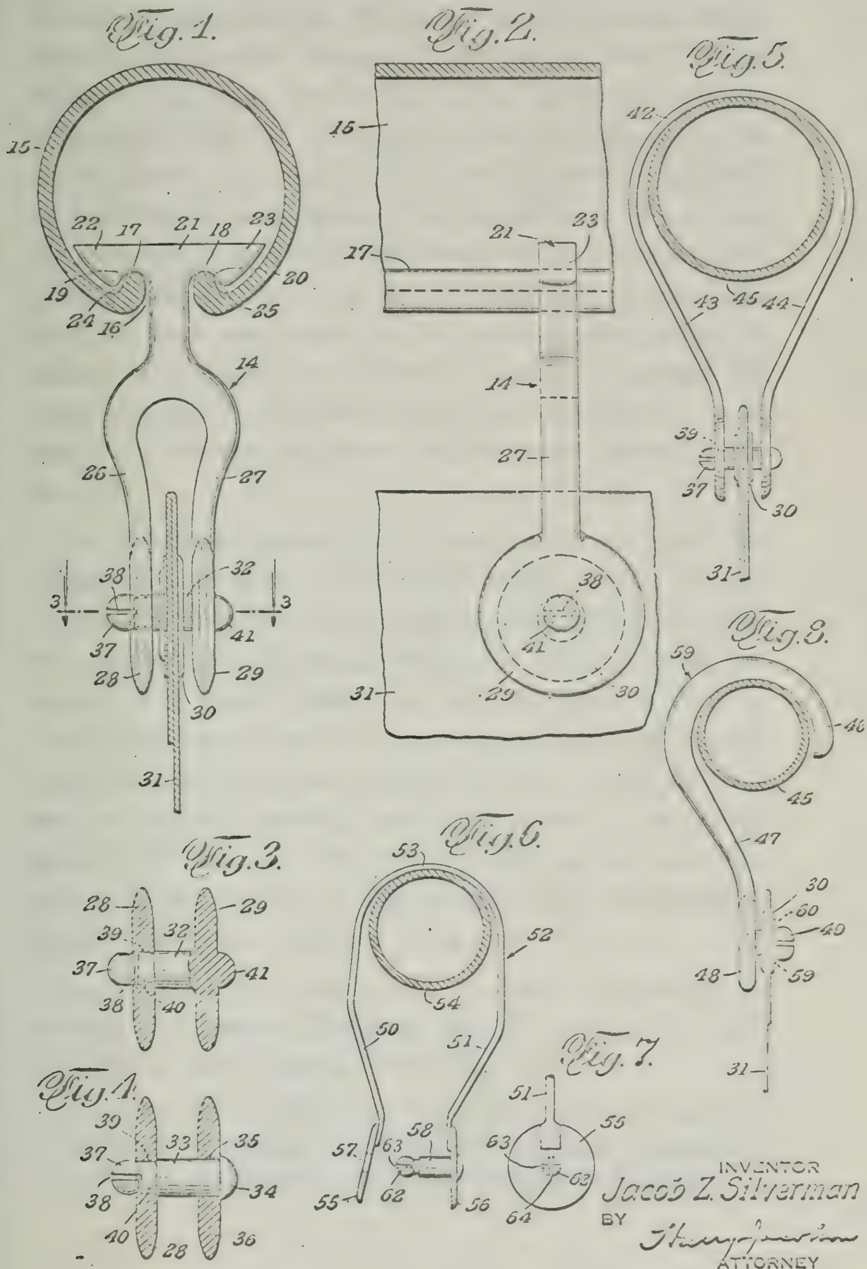
Nevertheless, after appellants had solved the problem, and after appellees came on the market with their "brand new" version of the invention to replace their existing hardware (Ex. AF), appellees took the position at the trial that the whole thing had been taught by the Silverman patent No. 2,320,308 (Ex. M).

The Silverman patent is shown on Insert No. 4 opposite hereto. As described in the Silverman patent, this

May 25, 1943. J. Z. SILVERMAN 2,320,308

CURTAIN HOOK AND INSTALLATION

Filed Aug. 23, 1941




INVENTOR
Jacob Z. Silverman
BY
ATTORNEY

Insert No. 4

device is designed for use on shower curtains. No suggestion is made that the Silverman device has any utility with spring-pleated drapery. The curtain hook 14 attaches to the upper hem of the shower curtain 31 and has a T-shaped head 21. The head 21 can be secured to rod 15 by aligning the head with the slot 16, moving the head up into the rod and turning the curtain hook 90° to seat the recesses 19 and 20 of the head on the inwardly projecting rails 17 and 18 of the rod 15. The curtain hook can ride back and forth on the rails as the curtain is opened and closed, but the rails 17 and 18 engage the head recesses to restrain rotation of the curtain hook head "to prevent accidental displacement thereof from the rails."

The Silverman patent quite clearly does not show the combination of claim 3 of the Stubblefield patent in suit. It does not include a spring pleater, and, of course, does not suggest a combination wherein a glide is to be attached to a spring pleater so that the glide is free to turn in the track (contrary to the operation of Silverman) between crosswise positions wherein it will not fall out, nor where a twist of the wrist applied to a spring pleater will align the head with a track gap for insertion and a release of the spring pleater will automatically position the glide crosswise in the track.

As was stated by the Court in *Esco Corporation v. Hensley Equipment Company*, 265 F. Supp. 863 (D.C. N.D. Calif., 1965); affirmed 375 F.2d 432:

> "The Court finds that while the pertinent features of each of claims 8 and 9 have appeared separately in prior art patents, the Court further finds that each

> such patent has *less than the full combination of elements specified in either claims 8 or 9.*" (Emphasis by Court)

Plainly, the Silverman patent has less than the full combination specified in claim 3.

Plaintiffs' Exhibit 40 was a specimen of the Silverman rod 14 with rails 17 and 18, and Exhibit 41 was a curtain with a spring pleater therein and glides as shown in the Silverman patent attached to the spring pleater. It was demonstrated that if the glides are not kept at right angles to the rod, but are turned relative thereto (as they must when the spring pleater is opened and closed), the glides do not slide freely back and forth in the track but instead bind therein, the binding being caused by the friction of the rails 17 and 18 in the glide heads (R. 512). When the drapery was moved to a closed position, the spring pleater twisted the glides in the rod so they fell out of the track (R. 513-514), releasing the drapery from the track.

Thus, not only does Silverman not suggest the claimed combination, the use of Silverman glides with spring-pleated draperies results in a combination having a different (as compared to the Silverman disclosure) and inoperative result.

Appellees introduced Exhibit AL, their version of the Silverman glide in which the T-shaped head was rotated 90° to the body of the glide, and Exhibit AM, a plurality of such glides secured to a standard piece of spring pleater with the heads of the glides riding in a piece of standard track (i.e., without the rails 17 and 18 as shown

in the Silverman rod 15). It was then demonstrated that the structure and functions of the elements combined in Exhibit AM were the same as that of claim 3 of the patent in suit.

The construction and operation of Exhibit AM, however, differs from the teachings of the Silverman patent in three distinct ways. First of all, the glide itself is significantly different because of the 90° turning of the head. As admitted by Mr. Stall, one of the appellees, if a glide as so modified were to be used in the Silverman set-up, the glides would fall out of the track as the curtain is pulled to a closed position, a result not desired by Silverman (R. 483-484).

Secondly, the use of the spring pleater of Exhibit AM is simply not suggested by Silverman, and, indeed, the combination of Silverman glides as shown in the Silverman patent with a spring pleater will not operate for the purpose desired by Silverman nor by the present invention, as demonstrated with Exhibits 40 and 41.

Thirdly, the use of a standard track, without rails, is not suggested by Silverman. Eliminating the rails, of course, allows the glides to turn easily in the track, which is essential to the present invention. However, in the Silverman patent, the rails 17 and 18 are specifically provided to prevent turning of the glides so that the glides cannot be accidentally dislodged from the rod.

Thus, Silverman teaches a particular structure and combination of a glide and rod wherein the rod cooperates with the rail to prevent the glide from turning. The present invention resides in a combination of a spring pleater, track and glides wherein the spring pleater turns

the glides freely in the track but limits the amount of turning so that the glides remain in the track during normal opening and closing of the drapery.

The Silverman patent does have one feature in common with the present invention. It does have a glide with a T-shaped head that can be inserted through the gap and then be turned to seat the head in the rod 15. However, this is about all that it does have in common, and, even then, the manner of insertion and seating of the Silverman glide is substantially different as compared to the present invention. In Silverman, the glide itself has to be handled manually by the installer as it is aligned and then has to be manually twisted to seat it in the rod. In the present invention the installer merely twists the spring pleater to align the glide head and moves the glide up through the track gap. The installer then releases the spring pleater and the spring pleater automatically orients the glide into a seated position.

Quite plainly, the Silverman patent does not anticipate the present invention defined by claim 3.

> *Topliff v. Topliff,* 145 U.S. 156 (1891)
>
> "It is not sufficient, in order to constitute an anticipation of a patented invention, that the device relied upon might, by modification, be made to accomplish the function performed by that invention, if it were not designed by its maker, nor adapted, nor actually used for the performance of such function."

The question then remains, would it have been obvious to one skilled in the art to take the Silverman glide out

of its environment, modify the construction thereof and give it a significantly new and different operation by using it with a spring pleater and track?

Mr. Stall, the developer in 1946 of the spring pleater (R. 470), has had twenty-one years of drapery hardware experience (R. 497), and throughout the years has seen about 50 different types of glides (R. 479). Surely he represents a reasonable standard of a person having "ordinary skill in the art". Yet, he did not develop his version of the present invention until after Mr. Stubblefield invented appellants' device and appellants were on the market with it.

More significantly, Mr. Stall testified that in his years of experience he had not seen a glide as shown in the Silverman patent (R. 487). When questioned about the purpose for the rails 17 and 18 of the Silverman rod 15 and whether the Silverman glide rotates about its vertical axis as the curtain is opened and closed, Mr. Stall was unable to answer, and stated that he did not know (R. 485-489).

Thus, we have here a 1943 prior art patent, issued several years prior to the development in 1946 of spring-pleated drapery and 17 years prior to the present invention, the operation of which was unclear to Mr. Stall. And yet (after full knowledge of the construction and operation of the Stubblefield patent in suit), appellees would have it believed that it would be obvious to take one element (the curtain hook 14) from the Silverman patent, modify it physically and put it into a new and different environment wherein it has new and additional cooperative results.

Appellees' conversion of the long dormant Silverman device into use with a spring pleater, after full knowledge of the manner of operation of the Stubblefield patent in suit, represents a clear and improper exercise of hindsight.

> *Diamond Rubber Co. v. Consolidated Rubber Tire Co.,* 220 U.S. 428, 31 S.Ct. 444 (1910)
>
> "* * * Knowledge after the event is always easy, and problems once solved present no difficulties, indeed, may be represented as never having had any, and expert witnesses may be brought forward to show that the new thing which seemed to have eluded the search of the world was always ready at hand and easy to be seen by a merely skilful attention."
>
> *Neff Instrument Corporation v. Cohu Electronics, Inc.,* 298 F.2d 82 (C.A. 9, 1961)
>
> "* * * As to the obviousness of an invention, when viewed with the wisdom of hindsight, this court has said,
>
> " 'It is of no significance that "viewed after the event, the means * * * adopted seem simple and such as should have been obvious to those who worked in the field, but this is not enough to negative invention." Goodyear Tire & Rubber Co. v. Ray-O-Vac Co., 321 U.S. 274 (64 S.Ct. 593, 88 L. Ed. 721) * * *. "Now that it has succeeded, it may seem very plain to anyone that he could have done it as well. This is often the case with inventions of the greatest merit." ' "

The finding and conclusion of obviousness based upon the Silverman patent should clearly be reversed.

(No Model.)

# F. C. LOUNSBURY.
## CURTAIN FIXTURE.

No. 568,091. Patented Sept. 22, 1896.

Fig. 3.

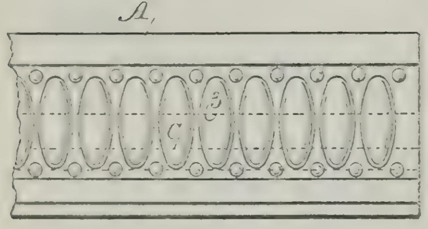



Fig. 1.

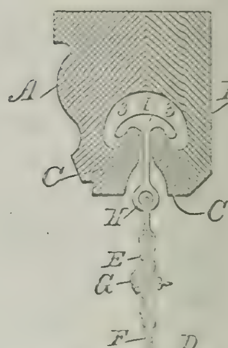



Fig. 2.

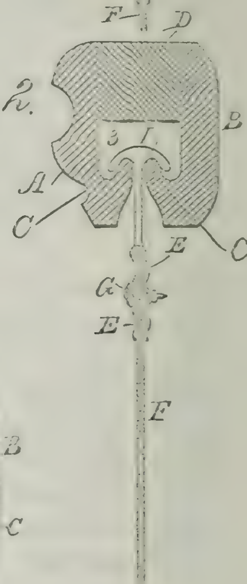



Fig. 4.

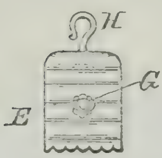
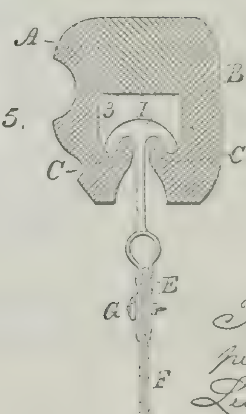



Fig. 5.




Witnesses
Chas H. Smith
J. Staib

Inventor
Fred C. Lounsbury
per
Lemuel W. Serrell
Atty

Insert No. 5

## THE INVENTION OF CLAIMS 3 AND 4 IS NOT OBVIOUS IN VIEW OF THE LOUNSBURY PATENT NO. 568,091

Appellees also relied heavily at the trial upon the Lounsbury patent No. 568,091 shown in Insert No. 5 on the opposite page.

This patent, issued 72 years ago, is substantially the same as the Silverman patent. That is, it too discloses a curtain hook I having a T-shaped head which can pass up through the gap between tracks c, c, and be turned 90° to seat on the tracks. The hook I is attached to the curtain F by means of a clip E and pin G so that the head of the hook I is at right angles to the curtain, as in Silverman. Three versions are shown in Lounsbury, Fig. 1 showing the hook I and clip E as two pieces with the clip suspended from the hook eye H, while in Figs. 2 and 5 the hook I and clip E are integral with each other.

As in Silverman, once the hook is inserted in the tracks, the tracks keep the hook from turning as the hooks move back and forth along the tracks upon opening and closing of the curtain.

Also as in Silverman, there is no disclosure or suggestion in Lounsbury as to the use of a spring pleater, and thus this patent does not show the combination of claim 3.

At the trial appellees introduced Exhibit AO to show how the Lounsbury disclosure could be changed into a device having the same operation as the present invention. Exhibit AO comprises a plurality of glides shaped the same as the hook I (but without the clip E) of Fig. 1 of the Lounsbury patent, with the hook eyes H being directly connected to a spring pleater and with the heads

of the hooks riding in a section of standard drapery track.

Such a combination is completely foreign to the Lounsbury disclosure. There is no suggestion in Lounsbury that the clip E of Fig. 1 could be eliminated and a curtain or drapery be attached directly to the hook eye H. In fact, if Lounsbury were to do this, as the curtain is pulled closed, i.e., to the position of the curtain in Fig. 1, the curtain would twist the hook so that it would bind severely or drop out, just as in Silverman (R. 523, 524). Thus, the first step of modification would render the Lounsbury device as inoperative for Lounsbury's purposes.

Next, the combination adds a spring pleater, which is completely unsuggested by Lounsbury. This addition would then require that the Lounsbury hooks turn about a vertical axis as they move along the track, an operation contrary to that desired by Lounsbury.

The next step of reconstruction is to substitute a track without inwardly turned lips for that shown by Lounsbury. This then allows the hooks to turn freely in the track, which again is a contrary result to that desired by Lounsbury. The elimination of such lips in the Lounsbury track would then eliminate the means whereby the hooks are held in the track.

It may well be that when all of these changes have been made, the new combination of a spring pleater, a portion only of the Lounsbury hooks I and a standard track will operate in substantially the same way as the Stubblefield patent, but such construction is certainly not suggested (and indeed is contrary to that shown) in

Lounsbury. It is only shown by Stubblefield. Again, this is a pure exercise of hindsight.

The testimony of Mr. Stall on the Lounsbury patent is also illuminating. He stated that he had read the patent in the past but that he didn't know how the drape was attached in the patent (R. 493), and didn't know whether the rotation of the Lounsbury hook portion in Exhibit AO as the spring pleater is moved was the same or different as shown in the Lounsbury patent (R. 496). Thus, we have a man skilled in the art who is not clear from the Lounsbury patent as to how the Lounsbury device is intended to operate. How, then, can it be obvious to take this ancient disclosure and make all of the modifications necessary to arrive at Exhibit AO, without using the knowledge taught only by the Stubblefield patent?

---

**THE INVENTION IN THE PRESENT CASE IS NOT MERELY A GLIDE WITH A T-SHAPED HEAD, IT IS A COMBINATION OF ELEMENTS OBTAINING RESULTS THAT ARE NEW AND DIFFERENT FROM THOSE OBTAINED BEFORE**

The Silverman and Lounsbury patents, of course, both show curtain hooks with a T-shaped head which can be manually inserted through a track and manually twisted to a seated position. However, this is not the sole contribution of Stubblefield.

Instead, claim 3 sets forth a combination of a spring pleater, a plurality of glides and a track. These cooperate, as mentioned before, so that:

(1) no handling of the glides is necessary for installation or removal;

(2) a mere twist of the spring pleater will align the head of the glide so it can be inserted or removed from the track;

(3) after insertion of a glide into the track, a release of the spring pleater will automatically orient the glide in the track so that it will not fall out;

(4) movement of the spring pleater will cause the glides to turn in the track as they move back and forth in the track, but will maintain the glide sufficiently crosswise at all times so that the glides will not fall from the tracks.

These functions are not achieved by any of the prior art devices actually in use in the spring-pleated drapery art. Neither are they shown nor suggested by the Silverman or Lounsbury patents. Moreover, if the Silverman or Lounsbury curtain hooks were to be connected to spring-pleated drapery in the manner in which Silverman and Lounsbury teach that their hooks should be connected to curtains, then the resulting combinations would be inoperative. The prior art, taken singly or in the combination suggested thereby, simply does not teach the combination of claim 3 and does not render such combination obvious.

The worth of the present invention has been properly assessed by the Court below: "What has been done here is very beneficial. I do not think there is any question about that. It is an advance in the art, and there is no question about that" (R. 654). Such an invention is clearly worthy of protection, and this case calls for the application of the doctrine set forth in *Reynolds v. Whitin Mach. Works,* 167 F.2d 78, 82 (C.A. 4, 1948):

"* * * Patents for useful inventions ought not to be invalidated and held for nought because of such excursions into the boneyard of failures and abandoned experiments."

---

**THE DISTRICT COURT ERRED IN ADOPTING FINDING OF FACT NO. 21 IN FULL. (SPECIFICATION OF ERROR NO. 3)**

Finding of Fact No. 21 (Tr. 275) reads as follows:

> "In April, 1961 . . . after the filing of the application which matured into the patent in suit . . . the plaintiff John H. Hancock displayed a specimen of the Stubblefield glide (shown in the patent in suit) to the defendant Stall. This was the first time that the defendant Stall saw a Stubblefield glide."

The last sentence of this finding is clearly erroneous, and is not based on any credible testimony.

The facts show the following sequence of events. In August of 1960, Mr. Stubblefield had conceived his invention and a drawing, Exhibit 14, had been made for a mold to be made (R. 75). Appellants first sold these glides in October of 1960 (Exhibit 43) and by December 2, 1960 over 5000 glides as shown in the Stubblefield patent had been sold in the greater Los Angeles area (R. 601-602, Ex. 43).

The December 2, 1960 shipment of glides was made to Beauti Pleat of Long Beach and was signed for by a Norman Steffen (R. 562, 603, Exs. 42 and 43). Mr. Steffen testified that at this time he was working part time for his father (Beauti Pleat of Long Beach) as a drapery installer, and part time for appellee, Mr. Stall, in the latter's shop (R. 556).

Mr. Steffen testified that prior to the December 2, 1960 delivery of Stubblefield glides Mr. Stall had showed him and Mr. Scheel (Mr. Stall's foreman) a Stubblefield glide, had demonstrated its use with a spring pleater and track and had asked Mr. Scheel to work on making one like it (R. 570, 587-588).

The first physical evidence showing when appellees' glides (as used in the accused combination) were made is Exhibit AI, a bid dated February 8, 1961 for making a mold to produce appellees' glides.

The only evidence to support the finding that Mr. Stall did not see a Stubblefield glide before April, 1961 is Mr. Stall's testimony that he went to see his mold maker sometime prior to February 8, 1961 (R. 426) and that he had not seen a Stubblefield glide prior to that time (R. 423).

However, in Mr. Stall's deposition (Ex. 35), he testified that he first learned of the existence of the Stubblefield glide in late 1960 (R. 415). (This date had originally been "1961" in the deposition, but it was later changed to "1960", the change being initialled by Mr. Stall, R. 416.) Also, in Mr. Stall's deposition he testified that he had seen the Stubblefield glide *prior* to going to his mold maker (R. 423-424).

Thus, the only evidence to support the objected-to portion of Finding of Fact No. 21 is Mr. Stall's testimony at the trial which is in direct conflict with his deposition testimony that he saw the Stubblefield glide in late 1960, which is the time that Mr. Steffen testified that Mr. Stall showed and demonstrated the Stubblefield glide to him.

In addition, the evidence shows that the glides then developed by appellees' and appellants glides operated in combination with a spring pleater and track in such manner as to lead the Court to say that they "operate in exactly the same way" and "produce the same results" as appellants' glide (R. 633). Every portion of the fairly lengthy claim 3 fully describes appellants' accused combination (R. 200-215). This happenstance of such similarity is too much to be a pure coincidence. Insofar as Finding of Fact No. 21 states that the first time Mr. Stall saw a Stubblefield glide was in April, 1961 it is clearly erroneous.

Even though knowledge or intent to copy has no bearing on whether or not infringement exists, a true consideration of this finding has bearing on the question of validity. Mr. Stall was one skilled in the art. His lack of success in finding a solution to the problem before Mr. Stubblefield's invention, and his desire to have Mr. Scheel make glides to do the same job as the Stubblefield glides, clearly demonstrate the unobviousness of the present invention.

> *Sel-O-Rak Corp. v. Henry Hanger & Display Fix. Corp.*, 232 F.2d 176, 178 (C.A. 5, 1956)
>
> "Recognizing, as we do, that the validity of a patent is tested by consideration of the statutory purpose as it affects the public as a whole rather than on the basis of the rights or interests of only the parties to specific litigation, we are nevertheless impressed by the recognition thus given to the essential contentions of the inventor by one who has vital commercial interests at stake, and whose attitude may be considered as fairly representing the indus-

try. As was said by the Court of Appeals for the Second Circuit in Kurtz v. Belle Hat Lining Co., and quoted approvingly in two decisions of the Fourth Circuit:

> " 'The imitation of a thing patented by a defendant, who denies invention, has often been regarded, perhaps especially in this circuit, as conclusive evidence of what the defendant thinks of the patent, and persuasive of what the rest of the world ought to think.' "

---

**THE DISTRICT COURT ERRED IN REFUSING TO DISMISS THE COUNTERCLAIM INSOFAR AS IT RELATES TO CLAIMS 1 AND 2. (SPECIFICATION OF ERROR NO. 4)**

As has been brought out in the Statement of the Case, appellants made a general charge of infringement, without referring specifically to any claim, and appellees filed a counterclaim seeking to have all claims held invalid. Appellants in the discovery period narrowed their charge of infringement to claim 3 alone and thereafter all pleadings referred to claim 3 alone.

At the trial, appellees urged the Court to adjudicate claims 1 and 2. Appellants moved to dismiss the portion of the counterclaim relating to claims 1 and 2 on the basis that there is no case or controversy concerning such claims (R. 163), which motion was denied (R. 166).

Claims 1 and 2 differ significantly in scope from claim 3. As brought out previously, claim 3 relates to a combination of a spring pleater, glides and a track. Claims

1 and 2 relate not to such a combination, but solely to a glide of the specific construction shown in the patent in suit. Claims 1 and 2 read as follows:

> 1. A combination glide and pin element for draperies, which comprises a plastic body having a fulcrum portion and also having a dependent portion, pin-seat means provided on said dependent portion in spaced relationship from said fulcrum portion, said pin-seat means extending laterally from said dependent portion, glide means provided on said body above said fulcrum portion to slidingly support said body from a drapery track, a resilient pin pivotally mounted on said fulcrum portion, said pin having a first portion adapted to be supportingly connected to a drapery, said pin also having a second portion adapted to pivot freely on one side of said pin-seat means, and means on said body to prevent movement of said second pin portion to the other side of said pin-seat means except upon flexing of said second pin portion around the distal end of said pin-seat means, whereby said second pin portion is resiliently maintained in locked condition on said other side of said pin-seat means.
>
> 2. The invention as claimed in claim 1, wherein a detent protrusion is provided at said distal end of said pin-seat means.

As far as the present case is concerned, there is no justiciable controversy between the parties requiring an adjudication of the validity or infringement of claims 1 and 2. The pleadings prior to trial specifically limited the charge of infringement to claim 3. By virtue of this, appellants have disclaimed any right to hereafter assert that appellees' glides infringe claims 1 and 2.

*Du Bois Plastic Prod. v. United States Safety Service Co.,* 168 F. Supp. 944, 946 (D.C. Mo., 1958)

"Following service on it in this action, defendant filed a motion for a more definite statement, seeking, among other things, 'a statement and designation of the patent claim or claims of each of the patents in suit with respect to which plaintiffs charge infringement in the complaint.' Without awaiting formal ruling by the Court upon said motion, plaintiffs filed a more definite statement of complaint, designating the claims relied upon in this action to be: Claims 1, 2, 3, 4 and 5 of Patent No. 2,368,750; Claims 1, 2, 4, 5, 7, 8 and 9 of Patent No. 2,406,998; and Claims 1, 2, 3 and 6 of Patent No. 2,422,534. Plaintiffs have now filed an 'amendment to the more definite statement of complaint' and seek the Court's approval of the withdrawal from this action of Claims 8 and 9 of Patent No. 2,406,998; and Claims 1, 2 and 6 of Patent No. 2,422,534. Defendant-counterclaimant opposes approval of the withdrawal by plaintiffs of any of the claims previously designated and alleged as being infringed by it on the ground that it is entitled to the protection of a judgment of non-infringement with respect to said claims. Notwithstanding defendant's opposition, we believe that leave should be granted plaintiffs to file withdrawal from this action of the above-referred-to claims, for manifestly plaintiffs' disclaimer of non-infringement thereof no longer presents any justiciable issue between the parties in respect thereto. In light of such written disclaimer, there is no reason for conditioning leave to withdraw such claims, with prejudice or otherwise. The legal effect of the withdrawal is a disclaimer of infringement of said claims by defendant, and that fact standing of record will prevent plaintiffs from

hereafter asserting future infringement by defendant of any matters previously put in issue by the pleadings in respect to said claims."

Also see:

*Yavitch v. Seewack,* 323 F.2d 561 (C.A. 9, 1963)

*Emerson v. National Cylinder Gas Co.,* 251 F.2d 152, 157 (C.A. 1, 1958)

*The Peelers Company v. Kaakinen,* 126 USPQ 42 (D.C. W.D. Washington, 1960)

For the reasons set forth in the above cases and because there was and is no justiciable controversy between the parties relating to claims 1 and 2, the motion to dismiss was erroneously denied.

---

## THE DISTRICT COURT ERRED IN HOLDING CLAIMS 1 AND 2 TO BE INVALID. (SPECIFICATION OF ERROR NO. 5)

Although appellees asserted at the beginning of the trial that claims 1 and 2 should be adjudicated (R. 11), appellees did not pursue this during the trial. No prior art was introduced with testimony to explain how such art invalidated claims 1 and 2. In fact, there is no testimony concerning claims 1 and 2 at all. During the final arguments, appellees' counsel completely disregarded claims 1 and 2.

As is apparent from a reading of claims 1 and 2, many specific limitations are set forth as to the precise construction of the body portion of the glide and the manner in which the pin cooperates therewith. In the Findings of Fact, Finding No. 27 (Tr. 276) is the only one

which sets forth the "reasoning" as to why these claims are invalid:

> "27. The glide defined by each of claims 1 and 2 of Patent No. 3,090,431 does not constitute an invention over the prior art as aforesaid; the resilient pin attachment means is merely a change in degree for accomplishing the same result. The construction defined by each of Claims 1 and 2, taken as a whole, would have been obvious at the time the alleged invention was made in 1960 to a person having ordinary skill in the drapery hardware art."

There is no evidence at all to support the finding that the resilient pin attachment is merely a matter of degree. In addition, this finding is clearly insufficient to support a conclusion of invalidity in that it is not detailed enough to advise of the difference between the claimed invention and the prior art, nor does it show how or in what manner or respect the claimed inventions were not inventions, or how and why they did not require any exercise of the inventive faculties for their production. Rule 52(a), F.R.C.P., *Yavitch v. Seewack,* 323 F.2d 561 (C.A. 9, 1963); *Welsh Co. of Calif. v. Strolee of California,* 313 F.2d 923 (C.A. 9, 1963).

The judgment of invalidity of claims 1 and 2 should accordingly be stricken.

**THE DISTRICT COURT ERRED IN HOLDING THAT THE PATENT IN SUIT HAD BEEN MISUSED. (SPECIFICATION OF ERROR NO 6)**

The Court below concluded as a matter of law (Conclusion of Law No. XI, Tr. 290) that appellants were guilty of patent misuse.

The basis for the alleged misuse is bottomed upon Exhibit P, an agreement between appellant Stubblefield, Hancock and Brooks on the one hand and appellant Spring Crest. In this agreement, Stubblefield et al. granted an exclusive license under "Patent Rights" which included the patent in suit, several other patents and "all inventions conceived by any of them and constituting improvements or modifications relative to any invention contained within said Patent Rights or relating to drapery hardware and drapery hardware accessories". Stubblefield et al. also agreed to disclose to Spring Crest "all ideas conceived by any of them and relating to the field of drapery hardware and drapery hardware accessories."

In return, Stubblefield et al. were to be paid a royalty based upon the sale of certain specific items enumerated in Schedule A to the agreement. Some of these items were covered by patents, most were not. Stubblefield also agreed not to license or induce anyone other than Spring Crest to manufacture, use or sell the items enumerated in Schedule A.

During the trial appellees argued that this license agreement is a classic example of patent misuse wherein the owners of the patent in suit (Stubblefield, Brooks and Hancock) used the patent to force Spring Crest to pay royalties on unpatented items.

During the testimony, however, it was brought out that Mr. Stubblefield designed, in whole or in part, each and every item on Schedule A, that at the time they were designed Mr. Stubblefield was not an employee of Spring Crest, and that these royalties were the only compensation for this design work that he had done for Spring Crest (R. 598-599). Thus the agreement represents nothing more than an agreement by Spring Crest to pay for patented and unpatented design work done for it by Mr. Stubblefield, coupled with an agreement on the part of Stubblefield that Spring Crest was to have exclusive rights to these designs as far as he was concerned.

More important to the question of misuse is the fact that there was never any refusal by Stubblefield et al. to license Spring Crest under the patent in suit until Spring Crest agreed to pay royalties on all of the items in Schedule A, nor did Spring Crest ever seek a license in which it would not have to pay royalties on the items in Schedule A (R. 599-600).

Under these facts, it is plain that the parties entered into an agreement that they desired and that there was no coercion exercised whatsoever based upon the existence of the patent in suit. Appellants know of no law nor reason why this transaction between themselves can be tortured into a "patent misuse" as to give rise to any benefits to appellees.

Further, it is plain that the Court below did not intend to hold that there has been patent misuse. After requesting that appellees prepare the findings, the following colloquy was had:

> "Mr. Wills: Your Honor, would the Court care to make a finding on the patent misuse?
> The Court: No. * * *" (R. 668)

The holding that patent misuse exists should be reversed as inadvertently entered and as not based on fact or law.

---

**THE DISTRICT COURT ERRED IN FAILING TO FIND THAT CLAIM 3 WAS INFRINGED. (SPECIFICATION OF ERROR NO. 7)**

At the trial the accused combination (Exhibits 25 and 26) was thoroughly demonstrated, the language of claim 3 was applied to it and it was clearly shown that it had substantially the same construction, operating in the same way to give the same results (R. 200-215).

There was no dispute as to how either the accused or patented combinations worked, and there was no testimony offered by appellees to show that there was no infringement. The Court stated during the trial that in combination the two "operate in exactly the same way" and "produce exactly the same results" (R. 633).

In order to pass upon the issues presented and avoid the possibility of a remand for a determination of the question of infringement, the Court should have held that infringement exists if the claim is valid, and it was error not to do so.

However, in the present case, it is submitted that a remand is not necessary and that this Court can decide the question of infringement. There is no dispute as to

During the testimony, however, it was brought out that Mr. Stubblefield designed, in whole or in part, each and every item on Schedule A, that at the time they were designed Mr. Stubblefield was not an employee of Spring Crest, and that these royalties were the only compensation for this design work that he had done for Spring Crest (R. 598-599). Thus the agreement represents nothing more than an agreement by Spring Crest to pay for patented and unpatented design work done for it by Mr. Stubblefield, coupled with an agreement on the part of Stubblefield that Spring Crest was to have exclusive rights to these designs as far as he was concerned.

More important to the question of misuse is the fact that there was never any refusal by Stubblefield et al. to license Spring Crest under the patent in suit until Spring Crest agreed to pay royalties on all of the items in Schedule A, nor did Spring Crest ever seek a license in which it would not have to pay royalties on the items in Schedule A (R. 599-600).

Under these facts, it is plain that the parties entered into an agreement that they desired and that there was no coercion exercised whatsoever based upon the existence of the patent in suit. Appellants know of no law nor reason why this transaction between themselves can be tortured into a "patent misuse" as to give rise to any benefits to appellees.

Further, it is plain that the Court below did not intend to hold that there has been patent misuse. After requesting that appellees prepare the findings, the following colloquy was had:

"Mr. Wills: Your Honor, would the Court care to make a finding on the patent misuse?

The Court: No. * * *" (R. 668)

The holding that patent misuse exists should be reversed as inadvertently entered and as not based on fact or law.

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There was no dispute as to how either the accused or patented combinations worked, and there was no testimony offered by appellees to show that there was no infringement. The Court stated during the trial that in combination the two "operate in exactly the same way" and "produce exactly the same results" (R. 633).

In order to pass upon the issues presented and avoid the possibility of a remand for a determination of the question of infringement, the Court should have held that infringement exists if the claim is valid, and it was error not to do so.

However, in the present case, it is submitted that a remand is not necessary and that this Court can decide the question of infringement. There is no dispute as to

the structures involved nor their manner of operation, and thus the question of infringement becomes a question of law that may be decided by this Court. *United States v. Esnault-Pelterie,* 303 U.S. 26, 30, 50 S.Ct. 412; *Stuart Oxygen Co. v. Josephian,* 162 F.2d 857 (C.A. 9, 1947).

In view of the fact that the testimony (R. 200-215) and evidence show that infringement plainly exists and that such testimony was not disputed by appellees, we submit that this Court should decide, as a question of law, that appellees have infringed claim 3.

## CONCLUSION

Appellants respectfully request this Court to reverse the judgment below as to claims 3 and 4, to strike the portion of the judgment as to claims 1 and 2, to reverse the holding of patent misuse and to hold that claim 3 of the patent in suit is valid and infringed by appellees.

Dated, San Francisco, California,
June 14, 1968.

Respectfully submitted,
Bernard Kriegel,
Mellin, Hanscom & Hursh,
Oscar A. Mellin,
Carlisle M. Moore,
By Carlisle M. Moore,
*Attorneys for Appellants.*

## Certificate of Conformance

I hereby certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit, and, in my opinion, the foregoing brief is in full compliance with those rules.

Carlisle M. Moore.

**(Appendix Follows)**

# Appendix

# Appendix

## APPELLANTS' EXHIBITS

| Exhibit Number | Identified | Offered | Received | Rejected |
|---|---|---|---|---|
| 1 | 7 | 7 | 7 | |
| 2 | 20 | 20 | 20 | |
| 3 | 20 | 20 | 21 | |
| 4 | 23 | 23 | 23 | |
| 5 | 24 | 24 | 24 | |
| 6 | 24 | 25 | 24 | |
| 7 | 30 | 30 | 30 | |
| 8 | 31 | 32 | 32 | |
| 9 | 35 | 35 | 36 | |
| 10 | 36 | 36 | 37 | |
| 11 | 42 | 42 | 42 | |
| 12 | 42 | 42 | 42 | |
| 13 | 43 | 43 | 43 | |
| 14 | 74 | 75 | 76 | |
| 15 | 77 | 85 | 85 | |
| 16 | 85 | 85 | 85 | |
| 17 | 86 | 86 | 86 | |
| 18 | 89 | 89 | 89 | |
| 19 | 99 | 103 | 103 | |
| 19A | 134 | 134 | 134 | |
| 20 | 102 | 103 | 103 | |
| 21 | 133 | 135 | 135 | |
| 22 | 133 | 136 | 136 | |
| 23 | 133 | 137 | 137 | |
| 24 | 147 | 148 | 148 | |
| 25 | 147 | 151 | 151 | |
| 26 | 152 | 153 | 153 | |
| 26A | 152 | 153 | 153 | |
| 27 | 167 | 167 | 167 | |
| 28 | 167 | 167 | 167 | |
| 29 | 168 | 168 | 178 | |
| 30 | 251 | 253 | 254 | |
| 31 | 265 | 265 | 265 | |
| 32 | 265 | 266 | 266 | |
| 33 | 270 | 270 | 270 | |
| 34 | 271 | 271 | 271 | |
| 35 | 283 | 283 | 283 | |
| 36 | 284 | 284 | 285 | |
| 37 | 360 | 360 | 360 | |
| 38 | 507 | 510 | 510 | |
| 39 | 507 | 510 | 510 | |
| 40 | 507 | 526 | 527 | |
| 41 | 507 | 526 | 527 | |
| 42 | 562 | 563 | 563 | |
| 43 | 600 | 603 | 603 | |

## APPELLEES' EXHIBITS

| Exhibit Number | Identified | Offered | Received | Rejected |
|---|---|---|---|---|
| A | 447 | 447 | 447 | |
| B | 448 | 448 | 448 | |
| C | 442 | 442 | 442 | |
| D | 307 | 307 | 307 | |
| E | 230 | 231 | 231 | |
| F | 305 | 449 | 449 | |
| G | 449 | 449 | 449 | |
| H | 380 | 450 | 450 | |
| I | 376 | 379 | 379 | |
| J | 450 | 450 | 451 | |
| K | 217 | 217 | 218 | |
| L | 218 | 218 | 218 | |
| M | 339 | 339 | 339 | |
| N | 340 | 340 | 340 | |
| O | 451 | 451 | 451 | |
| P | 443 | 443 | 443 | |
| Q | 444 | 444 | 444 | |
| R | 315 | 315 | 315 | |
| S | 277 | 278 | 278 | |
| T | 388 | 388 | 388 | |
| U | 115 | 115 | 116 | |
| V | 17 | 17 | 18 | |
| W | 452 | 452 | 452 | |
| X | 298 | 298 | 298 | |
| Y | 304 | 453 | 453 | |
| Z | 319 | 319 | 319 | |
| AA | 320 | 320 | 321 | |
| AB | 324 | 324 | — | 326 |
| AC | 326 | — | — | |
| AD | 327 | 327 | 328 | |
| AE | 323 | 323 | 323 | |
| AF | 336 | 336 | 336 | |
| AG | 397 | 397 | 397 | |
| AH | 345 | 346 | 346 | |
| AI | 391 | 397 | 397 | |
| AJ | 391 | 397 | 397 | |
| AK | 466 | 467 | 467 | |
| AL | 467 | 469 | 469 | |
| AM | 469 | 474 | 474 | |
| AN | 474 | 475 | 475 | |
| AO | 475 | 478 | 478 | |

No. 22,679

IN THE

# United States Court of Appeals

FOR THE NINTH CIRCUIT

---

SPRING CREST COMPANY, a corporation, THOMAS A. STUBBLEFIELD, JAMES F. BROOKS, and JOHN H. HANCOCK,

*Appellants,*

*vs.*

AMERICAN BEAUTI PLEAT, INC., a corporation and ORVILLE T. STALL,

*Appellees.*

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## APPELLEES' BRIEF.

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*Appellees.*

---

## APPELLEES' BRIEF.

---

### Introduction.

For the Court's convenience, Appellees will use the same record designations selected by Appellants, viz., "Tr." for the clerk's transcript or original papers filed in the District Court, and "R." for the reporter's transcript of the proceedings.

The parties will ofttimes be referred to herein as "Plaintiff" or "Defendant", as in the Trial Court. The plaintiffs are the appellants herein, and the defendants are the appellees.

All emphasis in this brief are Appellees', unless otherwise noted.

Because the new Federal Rules of Appellate Procedure are presently in effect but Appellants' Brief was filed before the effective date of the new Rules, Appellees will endeavor to comply with the new Rules, but, at the same time, respond to the points in Appellants' Brief in the same order in which they have been raised.

## Counterstatement of the Case.

With the exception of the last sentence in Finding of Fact 21 [Tr. 275], the plaintiffs have not listed in their Specification of Errors any of the other sixty-one Findings of Fact [Tr. 270] which the Trial Court relied upon to support the Conclusions of Law adjudging claims 1 through 4 of patent No. 3,090,431 to be invalid and the plaintiffs to be guilty of patent misuse. Because these uncontested Findings of Fact will be referred to from time to time in Appellees' Brief, said Findings and the Conclusions of Law based thereon are reproduced in the "Appendix" at the end of this Brief. They will be referred to by paragraph number and the word "Appendix".

Defendants adopt the aforementioned uncontested Findings of Fact (Appendix) as their counterstatement of the facts relevant to the issues presented for review, and, in this portion of their brief, will limit the statement of additional "facts" to correcting errors in Appellants' Brief and providing a more complete statement of various of the "facts" to which the plaintiffs have referred.

The evidence regarding the sending of notices of infringement in behalf of the plaintiffs is found at Tr. 271, paragraph 7, and not at R. 272. The first notice of infringement [R. 165] charged the defendant Stall

with infringement of the entire patent in suit, and requested that he discontinue the manufacture and sale of *glides* coming within the scope of such patent. Claims 1 and 2 of the patent in suit [Ex. 1] are directed to the glider *per se,* and therefore the plaintiffs are the ones who caused the validity of these claims to be placed in issue.

The defendants continuously took the position that the validity of claims 1 and 2 was in issue, beginning with their Counterclaim [Tr. 17] and continuing through the trial of the action. The prayer of the Counterclaim [Tr. 18] specifically asked that patent No. 3,090,431 and each and every claim thereof be adjudged invalid and void.

When Plaintiffs' counsel represented to the Court in his opening statement that claim 3 was the only claim in issue [R. 10], Defendants' counsel promptly advised the Court [R. 11] that the validity of all of the claims was in issue.

The patent misuse issue was raised by the defendants for the first time in Defendants' Pre-Trial Statement [Tr. 107, pars. 38, *et seq.*] . . . some eleven months prior to trial . . . because this information was first obtained by the defendants after their Answer and Counterclaim had been filed.

Plaintiffs never took the position that this patent misuse issue was not properly before the Court, but, instead, agreed to include in the Stipulation of Facts Agreed Upon [Tr. 6] *forty-four paragraphs* relating to this very patent misuse issue [Tr. 219, par. 12, through Tr. 227, par. 56].

At the conclusion of the trial and after hearing oral argument, the Court stated that there was no invention

[R. 668] and instructed the defendants to prepare the findings.

When Defendants asked the Trial Court if it cared to make a finding on patent misuse, the Court answered in the negative, but after further discussion of the misuse issue, placed the burden on the defendants to prepare suitable findings of fact [R. 669]. The Findings of Fact adopted by the Court includes eleven paragraphs on the misuse issue [Tr. 285, *et seq.*], *none of which is disputed by the plaintiffs.* Plaintiffs' only specification of error regarding the patent misuse issue is the Conclusion of Law holding that the plaintiffs are guilty of patent misuse (Appendix, par. XI).

## Summary of Argument.

It is somewhat difficult to respond in a systematic manner to all of the plaintiffs' contentions regarding the "facts" because they have been spread throughout Appellants' Brief, and are ofttimes repeated under the various headings.

To reduce the number of pages required to be read by this Court and in an effort to avoid a repetition of the relevant facts, Appellees will summarize their argument in the following portion of this section and then proceed directly to a discussion of the Specification of Errors and the detailed arguments relating thereto beginning at page 16 of Appellants' Brief.

The Trial Court applied the appropriate rules of law to the established facts, and the uncontested facts clearly support the conclusions of law based thereon. *Plaintiffs are contesting only a single sentence in one finding of fact, out of a total of sixty-one findings of fact.*

The Trial Court understood Plaintiffs' position and arguments during the trial of this action regarding combination claims which include all old or both old and new elements, and read both of the cases on this point which were called to the Court's attention by the plaintiff [R. 294, 637].

The question of whether a claim could be valid if all of the elements therein were old, was also discussed among the Court and counsel [R. 195-197]. The Court specifically inquired of Defendants' counsel if such a claim could be valid, and the latter answered in the affirmative [R. 198].

The Trial Court did make statements before all of the testimony had been taken, to the effect that the plaintiffs' glide was beneficial and appeared to be an advance in the art, but such attributes . . . like commercial success . . . are not a substitute for invention where on the entire record, invention is clearly lacking.

As stated by this Court in *Griffith Rubber Mills v. Hoffar,* 313 F. 2d 1, 3 (9 Cir. 1963):

> "It follows that though a device may be new and useful it is not patentable if it consists of no more than a combination of ideas which are drawn from the existing fund of public knowledge, and which produces results that would be expected by one skilled in the art."

The Stubblefield glide of the patent in suit has not replaced the prior ceiling glide [Ex. F], the prior button glide [Ex. G], nor the prior Wilcox snap-in glide [Ex. W] for drapery installations. The latter continue to be sold in quantity [*uncontested* Finding of Fact 26, Appendix].

The Stubblefield glide of the patent in suit popped out of the ceiling track when the witness Lightenburger pulled on the drapes to which they were attached, as children do [R. 350].

The Stubblefield glide has the further disadvantage that the wire member for fastening the glide to the spring pleater and the drapery, breaks off and/or bends when the glides are being installed [Ex. AH], and the glide also drops off of the drapery [R. 343-345].

After carefully considering Plaintiffs' position as set forth in their Memorandum of Contentions of Fact and Law, the case law relied upon by the plaintiffs, and the established facts, the Trial Court properly found that each of claims 3 and 4 was invalid because there was no invention in attaching a form of glide of the type shown in Silverman [Ex. K] and Lounsbury [Ex. M] in the *same* holes in the old spring pleater and using it with the old track [R. 629-631, 668].

In *Hensley Equipment Company v. Esco Corporation,* 375 F. 2d 432 (9 Cir. 1967), the only case relied upon by the plaintiffs regarding claims 3 and 4, this Court affirmed the holding of the Trial Court that claim 8 was valid because the three old elements brought about a new result. In the present case, *uncontested* Findings of Fact 40, 41, 47 and 48 (Appendix) are that the three old elements operate in the same manner as the three elements of claims 3 and 4, *to achieve the same result.*

Plaintiffs charged the defendants with infringing all of the claims of the patent in suit by written notice and by the filing of the Complaint herein. The defendants also placed the validity of all of the claims in issue by their Counterclaim.

The Trial Court properly found claims 1 and 2, which are directed to a drapery glide *per se,* to be invalid as not amounting to an invention because there are many types of drapery glides and many types of pins, and the particular resilient pin attachment described in claims 1 and 2 was merely a change in degree for accomplishing the same result [*uncontested* Findings of Fact 25, 26 and 27, Appendix].

The Trial Court properly found that the plaintiffs were guilty of misuse regarding the patent in suit by requiring the payment of royalties by the licensee on both the patented glides and on numerous unpatented drapery hardware components used therewith.

The license agreement also required the patentee Stubblefield not to license or induce any other organization to manufacture, use or sell any of the patented or unpatented items, and not to engage in the manufacture, use or sale of any of such patented or unpatented items, and he refrained from so doing [*uncontested* Findings of Fact 51-61, Appendix].

Plaintiffs *have not cited a single case* in support of their contention that their acts did not amount to patent misuse, nor have they contested any of the cases referred to by the Court in Conclusion of Law XI (Appendix).

## ARGUMENT.

### 1. The Issues Before This Court Are Solely Questions of Law by Plaintiffs' Own Choosing.

Although the Circuit Courts are primarily concerned with the application of the proper rules of law to the facts, a Circuit Court will consider whether the findings of fact are supported by the evidence, *provided* such issues are properly presented to it.

Appellants' Brief was filed prior to July 1, 1968, the effective date of the new Federal Rules of Appellate Procedure. At the time of the filing of Appellants' Brief, Court of Appeals Rule 18(2)(d) was in effect, which provided in part that the appellants' brief shall contain:

> "In all cases a specification of errors relied upon which shall be numbered and shall set out separately and particularly each error intended to be urged."
>
> * * *
>
> ". . . In all cases, when findings are specified as error, the specifications shall state as particularly as may be wherein the findings of fact and conclusions of law are alleged to be erroneous."

Also, Court of Appeals Rule 18(3) provided, in part:

> "When findings are specified as error in the appellant's brief, *and such specification is argued therein,* the appellee's brief shall contain record references to the evidence relied upon by appellee as supporting the challenged finding."

The new Federal Rules of Appellate Procedure contain somewhat the same provisions in Rule 28(a)(2) by

requiring a statement of the issues presented for review.

In Appellants' "Specification of Errors" (page 5), No. 3 is the only one which refers to a finding of fact, and it concerns only the last sentence of Finding of Fact 21. As will be discussed more fully hereinafter, this single sentence would not adversely affect the decision of the Trial Court even if it were assumed that it is not supported by the evidence.

A case in point on this question of specifying the errors of the Trial Court and the questions which the Circuit Court will review on appeal, is *Everest & Jennings, Inc. v. E & J Manufacturing Co.,* 263 F. 2d 254, 258 (9 Cir. 1958), wherein this Court stated:

> "Before proceeding with the discussion of the points raised on this appeal, it should be pointed out that defendant in its statement of points to be relied upon on appeal has cited some 26 specifications of error, numbered I to XXVI. In its brief are set out and argued only those errors numbered XI to XVIII. Rule 18(2)(d) of this Court, 28 U.S.C.A., requires that 'in all cases' a brief shall contain 'a specification of errors relied upon which shall be numbered and shall set out separately and particularly each error intended to be urged.' *Failure to comply with this rule relieves this Court of considering the omitted errors, even if the errors are set forth elsewhere in the record.* Peck v. Shell Oil Company, 9 Cir., 1944, 142 F.2d 141. Therefore we will deal only with the specifications set forth in the brief."

Accordingly, by Plaintiffs' own choosing, there is no dispute as to any of the other findings of fact, and

the only issues before this Court are whether the Trial Court relied upon proper legal authorities and properly applied the established rules of law to these uncontested findings of fact.

**2. The Trial Court Properly Held Claims 3 and 4 Invalid Because the Drapery Assembly Described Thereby Did Not Evidence Invention, and Because the Three Elements Listed Therein Did Not Bring About a New Result. (Specification of Error No. 1).**

The statements of the District Court during the trial of this action and the Findings of Fact and the Conclusions of Law adopted thereby after carefully considering the established facts and the applicable law, show that the Trial Court understood Plaintiffs' position regarding combination-type claims 3 and 4 as well as the rules of law set forth in the two cases referred to by the plaintiffs.

The fact that the Trial Court clearly understood Plaintiffs' contentions regarding the interaction among the old track, the old spring pleater, and the purportedly new glides, is shown by uncontested Finding of Fact 33 (Appendix) and the transcript of proceedings beginning at page 629. Thus, after referring to statements contained in Plaintiffs' Memorandum of Contentions of Fact and Law, the Trial Court stated [R. 630-632]:

> "As I see it, the only thing here that we have is this attaching the glides to the undulating spring pleater so that the glides would remain crosswise to the track. The question I ask is, is that invention? That is what we are coming down to, whether that is invention.

"Everything here is old in the art except possibly the glide that has been manufactured by the plaintiff."

* * *

"The problem was how to keep the glides crosswise, and that was the problem, how to keep the glide crosswise.

"They solved this problem by attaching the glide to the undulating spring pleater which was old in the art. You remember just a moment ago I asked about the holes that were punched in the spring pleater, whether there was any claim made because of the location of the holes, and the witness said there was no claim made, there was nothing relative to the holes at all, and so it is the spring pleater that keeps the glides crosswise to the track and thereby keeps the glides from falling out.

"I think the question here is whether that was invention. I would be glad to hear from the plaintiff as to the question of invention. I am not interested in these other issues that have been raised, because I think that depends upon the Court's evaluation of whether or not this was invention."

* * *

*"What did the combination do that was never done before?"*

The ceiling track is admittedly an old and unchanged element. The spring pleater is an old and unchanged element. Prior glides have been fastened in the *same* holes in the old spring pleater and used with the old track to support draperies [*uncontested* Findings of Fact 30-32, Appendix, and Appellants' Op. Br. p. 19].

During the trial of this action, the plaintiffs directed the Court's attention to the case of *Twentier's Research, Inc. v. Hollister Incorporated,* 319 F. 2d 898 (9 Cir. 1963). The Court promptly requested the bailiff to bring it to him [R. 294].

At page 901, the *Twentier's* case contains the following statement:

> "*There is no doubt that the validity of a patent must be measured according to whether or not it exhibits 'invention'*. Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp., 340 U.S. 147, 71 S.Ct. 127, 95 L.Ed. 162 (1950). Mr. Justice Jackson, writing for the majority in that case, pointed out that the elusive concept of invention does not lend itself to affirmative definition, but that certain attributes of invention are essential to validity where the patent in question is for a combination of old elements. 'The conjunction or concert of known elements must contribute something; only when the whole in some way exceeds the sum of its parts is the accumulation of old devices patentable.' The elements must 'take on some new quality or function from being brought into concert.'
>
> 'The function of a patent is to add to the sum of useful knowledge.' "

It will be noted that the aforementioned *Twentier's* case uses the term "invention" in the broad sense, just as it was used by the Supreme Court in *Great Atlantic & Pacific Tea Co. v. Supermarket Equipment Corp.,* 340 U.S. 147.

In like manner, the Trial Court in the present case . . . time after time, throughout the course of the trial . . . emphasized that regardless of whether the patented assembly were advantageous or desirable, the issue was whether it met the statutory requirements of "invention" [R. 195, 630, 631, 638, 644, 648 and 649].

The Trial Court was adequately advised during the trial and clearly understood that a claim could be valid even though all of the elements therein were old.

Thus, in discussions with Plaintiffs' counsel during the course of the trial, the Court stated that he assumed that one could take elements that are old in the art and combine them in such a way as to get a new and unexpected result, and consequently obtain a patent [R. 195-197]. The Trial Court also specifically inquired of Defendants' counsel regarding this same point, and counsel answered that this statement was correct [R. 198].

Plaintiffs are now relying solely on *Hensley Equipment Company, Inc. v. Esco Corporation,* 375 F. 2d 432 (9 Cir. 1967) as to claims 3 and 4, which case they also called to the Court's attention during the trial of this action, and which the Court read [R. 637].

In the *Hensley* case, all of the elements in both claims 8 and 9 of the Baer patent were old. This Circuit Court affirmed the holding of the District Court that only claim 8 was novel [valid?] because the three features of that claim coacted to bring about a new result.

The established and *uncontested* facts in the present case are to the contrary. Here, the old elements taken from the prior art operate in the same manner as the

three elements of claims 3 and 4, to achieve the same result [*uncontested* Findings of Fact 33-41, 43-48, Appendix].

The Trial Court properly held that claims 3 and 4 are invalid for lack of invention and because there was no change in operation or result from the use of the old elements.

### 3. The Trial Court Properly Held Claims 3 and 4 Invalid as Being Obvious to a Person Having Ordinary Skill in the Drapery Art. (Specification of Error No. 2).

During the trial, the District Court did state [R. 650] that at that time he was not interested in the ordinary skill in the art, but was interested in whether the attaching of the Plaintiffs' glide to the spring pleater is "invention" . . . thereby using the same broad but proper terminology as used by this Court in the *Twentier's* case, *supra,* to which the plaintiffs had referred, which, in turn was based on the language used by the Supreme Court in the *A & P* case, *supra.*

However, after the Trial Court had the opportunity to consider the testimony and the more recent case of *Graham v. John Deere Co.,* 383 U.S. 1, he adopted findings of fact and conclusions of law which correctly found and concluded that what the plaintiff Stubblefield had done would have been obvious to a person having ordinary skill in the drapery art [*uncontested* Findings of Fact 42 and 49, and Conclusions of Law VI, Appendix].

Actually, what the plaintiff Stubblefield did (and what the defendant Stall did) was but a short and obvious step beyond those steps taken by the witness Ed

Lightenburger. The latter was the real pioneer in the "close hook-up" development [R. 301-336].

In 1959, Mr. Lightenburger devised the first close hook-up type of drapery assembly and installed it in approximately 100 rooms of the Kaiser Foundation Hospital in Oakland, and the assembly operated very satisfactorily. This new assembly employed the conventional ceiling track, the conventional spring pleater, and the conventional plastic ceiling glides with wire eyelets, but instead of using the old pin-on hooks, Mr. Lightenburger used a "post and gripper" [Ex. R] to fasten the eyelets of the glides to the spring pleater [*uncontested* Finding of Fact 14, Appendix ].

This was the first step in Mr. Lightenburger's development which eventually resulted in the plaintiff's glides and the defendants' glides.

In late 1959 or early 1960, Mr. Lightenburger engaged in further experimentation and made a set of new ceiling glides [Ex. S], each of which comprised a plastic glide or block which was supported in the conventional track, and a removable hook with a T-shaped head which could be inserted in a slot formed in the block and turned 90° to maintain the head of the hook in position. This construction operated satisfactorily and permitted the drapery material and the spring pleater to be attached to and disengaged from the blocks in the track by merely twisting the head of the hooks [*uncontested* Finding of Fact 15, Appendix].

This new concept of the blocks and the hooks, which were removed by twisting, was disclosed to the defendant Stall in early 1960, and in March 1960, Mr. Stall displayed the development to his distributors at a business

meeting in Las Vegas. Included in the group were the plaintiffs Hancock and Brooks [*uncontested* Findings of Fact 16 and 17, Appendix].

A few months after the meeting in Las Vegas, the plaintiffs Hancock and Brooks discussed the drapery glide situation with the plaintiff Stubblefield, and shortly thereafter Mr. Stubblefield conceived of the drapery glide of the patent in suit and which has a T-shaped head adapted to be inserted in the slot in the ceiling track and turned cross-wise thereof [*uncontested* Finding of Fact 18, Appendix].

In like manner, after the defendant Stall had seen the block and removable hook developed by Mr. Lightenburger, he cut from a flat piece of plastic, a drapery glide with a T-shaped head which was adapted to be inserted into the slot in the standard ceiling track and turned 90° to extend cross-wise of the slot in the track [*uncontested* Finding of Fact 16, Appendix].

Thereafter, in the early part of 1961, the defendant Stall ordered the production of the accused glides and sent some to Mr. Lightenburger who installed draperies using them, and who then sent some of them out to his dealers [R. 337-339; *uncontested* Findings of Fact 19 and 20, Appendix].

It is readily apparent that both the plaintiffs' patented glide and the defendants' accused glide, and the use thereof with a conventional spring pleater and a conventional ceiling track, stemmed from the Lightenburger developments and was but a short step forward which was obvious to a person having ordinary skill in the drapery art, *i.e.,* the plaintiff Stubblefield and the defendant Stall.

## 4. The Drapery Assembly of Each of Claims 3 and 4 Was Also Obvious in View of All of the Prior Art, Including Silverman Patent 2,320,308 and Lounsbury Patent 568,091. (Specification of Error No. 2).

The Stubblefield drapery glide of the patent in suit can be fastened to a conventional spring pleater and has a T-shaped head which was designed to be inserted through the slot of a conventional track and turned cross-wise.

The prior art Silverman patent [Ex. K] and the prior art Lounsbury patent [Ex. M], each discloses a drapery glide which can be fastened to a conventional spring pleater and which has a T-shaped head designed to be inserted through the slot in a track and turned cross-wise.

To achieve the drapery assembly of claims 3 and 4 of the patent in suit, Stubblefield glides were fastened to a conventional spring pleater in the *same holes* in which the prior glides had been fastened, and used with a conventional slotted track.

A drapery assembly of either Lounsbury glides as shown in Fig. 1 of Exhibit M or Silverman glides with the heads turned 90° [Ex. K] fastened to a conventional spring pleater in the *same holes* in which the prior glides have been fastened, and used with a conventional slotted track, operates in the same manner as the alleged combinations of claims 3 and 4 to achieve the same result [*uncontested* Findings of Fact 40, 41, 47 and 48, Appendix].

Exhibit AM is a "claim 3" drapery assembly employing the Silverman type glide, and Exhibit AO is a "claim

3" drapery assembly employing the Lounsbury type glide [*uncontested* Findings of Fact 39 and 46, Appendix].

Plaintiffs' counsel, who testified as a patent expert in his client's behalf, admitted that an assembly of Lounsbury glides as shown in Fig. 1 of Patent 568,091 [Ex. M] attached to an old type of spring pleater with old pin and gripper connectors, and used with an old track . . . would operate satisfactorily, would operate the same as the Stubblefield assembly shown in the patent in suit and as claimed in claim 3 thereof, and claim 3 of the patent would read on that assembly [R. 548-549].

Appellants are taking the position that Silverman and Lounsbury do not teach or suggest the use of a spring pleater. How could they; the spring pleater was first used with draperies after the issuance dates of said patents.

However, the question is not whether particular prior art patents teach or suggest the assembly defined by claims 3 and 4, but whether the alleged invention would have been obvious to a person having ordinary skill and who had constructive knowledge of *all* of the prior art.

The test to be applied as to obviousness was laid down in *Graham v. John Deere Co.,* 383 U.S. 1, and was set forth as follows in *Hensley Equipment Company v. Esco Corporation,* 375 F. 2d 432, 436 (9 Cir. 1960), the case upon which appellants are relying:

> "The obviousness or nonobviousness of the subject matter of a patent presents a question of law. National Lead Company v. Western Lead Products

Company, 9 Cir., 291 F.2d 447, 450-451. However, that legal question is to be determined against a factual background with particular emphasis on three considerations, namely: the scope and content of the prior art, the differences between the prior art and the claims at issue, and the level of ordinary skill in the pertinent art. See Graham v. John Deere Co. of Kansas City, 383 U.S. 1, 17-18, 86 S.Ct. 684, 15 L.Ed. 2d 545.

"In Jeddeloh Brothers Sweed Mills, Inc. v. Coe Manufacturing Company, 9 Cir., 375 F.2d 85, decided November 23, 1966, but in which an amended opinion was filed today, we had occasion to review the above-stated principles. We noted that these principles are to be applied with special strictness in determining the patentability of mechanical combinations."

In the present case, what is the scope and content of the prior art, and what are the differences between the prior art and the claims in issue?

The plaintiffs have admitted that prior to the alleged depelopment of Stubblefield, various types of glides had been fastened with post and gripper connectors to the conventional spring pleater at the holes provided therein, and the assembly of glides and spring pleater used with conventional slotted ceiling track. Included among these prior glides are the Wilcox glide [Ex. W] which is designed to be inserted upward through the slot in the track, and "clipped" button glides [Ex. H] which are also adapted to be inserted upwardly through the slot in the conventional ceiling track [*uncontested* Findings of Fact 30-32, Appendix].

Other known prior art glide constructions include the aforementioned Silverman and Lounsbury type glides with the T-shaped heads, also designed to be inserted upwardly through the slot in a drapery track.

Thus, "the difference between the prior art and the claims in issue" (*Graham v. John Deere Co., supra*) is the substitution of other prior glides (Silverman and Lounsbury type glides) for and in place of other prior glides, in the *same* holes in the old spring pleater, for use with the old slotted track.

This substitution was obvious to both the plaintiff Stubblefield and to the defendant Stall, after Mr. Lightenburger's "close hook-up" developments.

Bearing in mind the special strictness regarding mechanical combinations referred to by this Court in the *Hensley Equipment Company* case, *supra,* relied upon by the plaintiffs, it is abundantly clear that the subject matter of claims 3 and 4 does *not* meet the statutory requirement of nonobviousness laid down by the Supreme Court.

### 5. Finding of Fact 21 Is Supported by the Evidence and Is Not Clearly Erroneous. (Specification of Error No. 3).

Prior to the trial of this action and the testimony of the plaintiff Hancock, the defendant Stall was unclear in his own mind as to the *specific date* when he first saw a specimen of the Stubblefield glide [R. 414-422].

However, after Mr. Hancock testified that he first showed the glide to Mr. Stall in April 1961, and after Mr. Stall located the documents [Exs. A and AJ] showing when his glide went to the mold maker [R.

425], his memory was refreshed and he testified in response to a question from the Court that he did *not* see the Stubblefield glide before he went to the mold maker with the accused glide [R. 427].

On redirect examination, Mr. Stall again testified that he first saw a Stubblefield glide in April 1961, and he first saw said glide *after* he took his own glide to the mold maker [R. 434].

Mr. Stall also contradicted the testimony of Mr. Steffen, a former employee of his who went to work with the plaintiffs, and testified that he had never handed a Stubblefield glide to Mr. Scheel in Mr. Steffen's presence [R. 627].

Rule 52(a) of the Federal Rules of Civil Procedure provides, in part:

> ". . . Findings of Fact shall not be set aside unless clearly erroneous, and due regard shall be given to the opportunity of the trial court to judge of the credibility of the witnesses."

The Trial Judge in this case is a senior District Judge with many years of experience in observing the demeanor of witnesses and in judging their credibility. He did *not* believe the testimony of Mr. Steffen, and did believe the testimony of the defendant Stall.

However, even if the defendant Stall had seen the Stubblefield glide before his own glide went to the mold maker, this would not prove that Mr. Stall had copied it. The defendant Stall was familiar with the work of Mr. Lightenburger with the plastic glide and hook with the T-shaped head [Ex. S], and had cut his own version of a T-shaped glide from a flat piece of

plastic [Ex. T] long before Mr. Stubblefield entered the picture [*uncontested* Findings of Fact 15-18, Appendix].

Furthermore, even if it were assumed (contrary to the evidence) that the accused glide had been copied from the Stubblefield glide, this would not establish invention as to the Stubblefield glide, where, as here, obviousness is clear. *Walker v. General Motors Corp.*, 362 F. 2d 56, 60 (9 Cir. 1966).

### 6. The Validity of Claims 1 and 2 Was Placed in Issue by the Complaint and the Counterclaim, and Remained in Issue Throughout the Discovery Period and the Trial of This Action. (Specification of Error No. 4).

The defendants never took the position that the validity of claims 1 and 2 was *not* in issue.

Plaintiffs' first charge of infringement, by a letter dated April 22, 1965, notified the defendant Stall that the plastic pin-on glides manufactured and sold by him infringed the patent in suit, and he was requested to discontinue the manufacture and sale "of glides coming within the scope of such patent" [R. 165]. Claims 1 and 2 cover the glide *per se.*

The Complaint alleged that the defendants infringed the patent in suit by the manufacture, or by the sale, or by the use of devices "utilizing the *inventions*" patented by said Letters Patent [Tr. 4].

The prayer of the Counterclaim [Tr. 18] specifically asked that each and every claim of patent No. 3,090,431 be adjudged invalid and void.

In answer to Defendants' Interrogatory No. 29, the Plaintiffs did *not* state that claim 3 was "the only

claim" alleged to be infringed by the Defendants [Tr. 50].

In Defendants' Pre-Trial Statement, one of the issues to be tried by the Court was stated to be: "Is patent 3,090,431, and particularly claim 3 thereof, valid?" [Tr. 108, par. 4].

In Plaintiffs' Memorandum of Contentions of Fact and Law, filed July 13, 1966 [Tr. 111], the plaintiffs contended that "the patent in suit" was infringed by the accused drapery supporting and pleating apparatus [Tr. 113, par. 6].

Finally, when Plaintiffs' counsel represented to the Court in his opening statement that claim 3 was the only claim in issue [R. 10], Defendants' counsel promptly advised the Court [R. 11] that the validity of all of the claims was in issue.

*Du Bois Plastic Prod. v. United States Safety Service Co.*, 168 F. Supp. 944, referred to by the appellants (p. 40), is not in point because in it the plaintiff successfully sought the withdrawal from the action of certain specified claims in two patents promptly after the action was instituted. In the present case, the plaintiffs did not endeavor to exclude claims 1 and 2 from the action until the second day of the trial.

*Yavitch v. Seewack*, 323 F. 2d 561, cited by the plaintiffs (p. 41), is not in point because in it the Trial Court adjudicated the validity of a patent which was not placed in issue by the pleadings, by the Pre-Trial Order, or by the trial. In the present case, the validity of claims 1 and 2 was placed in issue by the Complaint, by the Counterclaim, and by Defendants' Pre-Trial Statement.

*Emerson v. National Cylinder Gas Co.,* 251 F. 2d 152, 157, referred to by the plaintiffs (p. 41), is not in point because in the cited case there was no evidence that a concrete and definite controversy concerning claims 1 and 2 of the Sinnett patent existed between the parties. In the present case, the first notice of infringement sent in behalf of the plaintiffs notified the defendant Stall that his *glides* infringed the patent in suit. Also, the Complaint alleged that the defendants were utilizing the *inventions* (plural) patented by the patent in suit.

*Peelers Company v. Kaakinen,* 126 U.S.P.Q. 42, cited by the plaintiffs (p. 41), is also not in point because in it the original Complaint alleged the infringement of only specific selected claims in various patents. In the present case, the Complaint did not specify any particular claims, but, instead, alleged that the defendants were utilizing the inventions patented by Letters Patent No. 3,090,431.

The validity of claims 1 and 2 was placed in issue by the Claim and Counterclaim, and the plaintiffs did not endeavor to exclude these claims from consideration by the Trial Court until after the latter indicated [R. 96] that he did not believe a patent should be granted on a glide with a pin.

Accordingly, the Trial Court properly denied the plaintiff's oral motion, during the second day of the trial, to dismiss the portion of the Counterclaim relating to claims 1 and 2.

### 7. The Trial Court Properly Held Claims 1 and 2 to Be Invalid as Obvious in View of the Prior Art. (Specification of Error No. 5).

During the trial, many different types of drapery glides and connectors were identified and discussed by the various witnesses, and numerous exhibits introduced into evidence illustrating the constructions thereof [Exs. F, G, H, I, J, M, R, S, T, W, AM and AO]. Mr. Lightenburger, in particular, testified regarding various types of glides and connectors which he had used.

During the trial, Plaintiffs' counsel admitted [R. 97]:

> "Of course a glide can be—not this glide, but any glide could possibly be attached in a thousand ways to a spring pleater."

The defendant Stall testified without contradiction that the Stubblefield glide has a little different attachment to the drapery, but it accomplishes the same thing as the post and gripper and as the attachments shown in the Silverman and Lounsbury patents [R. 480, 501].

From the very beginning, the Trial Court indicated he was not favorably impressed as to the patentability of the glide alone [R. 93-96].

*Uncontested* Findings of Fact 23, 24, 25, 26 and 27 (Appendix) describe the subject matter of claims 1 and 2 and the many prior types of glides and types of pins for connecting glides to drapes or curtains. They also set forth the fact that the Stubblefield glide has not replaced the prior glides, and that the resilient pin attachment means defined by claims 1 and 2 is merely a change in degree for accomplishing the same

result accomplished by the prior glides and attachment means.

The aforementioned *uncontested* Findings of Fact clearly support the conclusion of obviousness and are detailed enough to inform this Court of the basis for such conclusion under the authorities cited by the appellants (p. 42).

The decision of this Court in *Welsh Co. of California v. Strolee of California, Inc.,* 313 F. 2d 923 (1963), relied upon by the appellants herein, is particularly interesting in view of a statement by Plaintiffs' counsel that any glide could be attached a thousand ways to a spring pleater [R. 97].

Thus, in the cited case, this Court held the patent in suit to be invalid, stating (1. c. 927):

> "*There was no invention in what plaintiff did here in using the particular inverted U toggle bar, rather than any one of a dozen other means of stopping the pivotal movement.* The U bar added strength and perhaps convenience to the entire device, and to this extent might be an improvement over previous devices but we do not think it invention, nor any sweeping or extraordinary result."
>
> * * *
>
> "We think the subject matter sought here to be patented, compared to the prior art, indicates clearly that the subject matter was obvious at the time the invention was made to a person having ordinary skill in the art to which the subject matter pertains. 35 U.S.C. § 103. It is the 'standard of invention' which controls."

The Trial Court herein properly found that claims 1 and 2 are invalid.

### 8. The Trial Court Properly Held That the Plaintiffs Were Guilty of Patent Misuse Regarding the Patent in Suit, and Therefore Not Entitled to Any of the Relief Requested. (Specification of Error No. 6).

The "Stipulation of Facts Agreed Upon" [Tr. 219-227] and *uncontested* Findings of Fact 51-61 (Appendix), set forth the facts regarding the license agreement and the list of patented and unpatented items [Ex. P] upon which the corporate plaintiff Spring Crest Company paid royalties to the individual plaintiffs Hancock, Brooks and Stubblefield, and the fact that the plaintiff Stubblefield agreed to refrain, and did refrain, from engaging in the manufacture, use or sale of the *un*patented items listed in Schedule A of the agreement, and from inducing any organization other than Spring Crest to manufacture, use or sell any of such *un*patented items.

Plaintiffs apparently contend that the payment of royalties on all of the unpatented components of drapery hardware and tools listed in Schedule A of the agreement, and the refraining by the plaintiff Stubblefield from competing in unpatented items, did not constitute patent misuse because said Stubblefield designed most of these items.

This argument overlooks the fact that the plaintiffs Brooks and Hancock, both of whom received royalty payments, did not participate in the design of the unpatented items.

It also overlooks the fact that a patent grant involves the public's interest, and that neither this Court, nor any other court, will aid litigants in a scheme to expand a patent beyond its legitimate scope.

This equity rule was set forth by the Supreme Court in *Mercoid Corp. v. Mid-Continent Invest. Co.,* 320 U.S. 661, as follows:

> "Respondents ask the equity court for an injunction against infringement by petitioner of the patent in question and for an accounting. Should such a decree be entered, the Court would be placing its imprimatur on a scheme which involves a misuse of the patent privilege and a violation of the antitrust laws. It would aid in the consummation of a conspiracy to expand a patent beyond its legitimate scope."

In *Mercoid Corp. v. Minneapolis-Honeywell Regulator Company,* 320 U.S. 680, the Supreme Court used the following words:

> ". . . The legality of any attempt to bring unpatented goods within the protection of the patent is measured by the anti-trust laws not by the patent law. For the reasons stated in Mercoid v. Mid-Continent Invest Co. Supra, the effort here made to control competition in this unpatented device plainly violates the anti-trust laws, even apart from the price-fixing provisions of the license agreements. It follows that petitioner is entitled to be relieved against the consequences of those acts. *It likewise follows that respondent may not obtain from a court of equity any decree which directly or indirectly helps it to subvert the public policy which underlies the grant of its patent.*"

Plaintiffs have not cited a single authority in support of their position, nor have they disputed the propriety of the authorities listed in support of Conclusion of Law XI (Appendix).

The holding of patent misuse was knowingly entered by the Trial Court.

At the conclusion of the trial, when the defendants inquired of the Court if he cared to make a finding on patent misuse, the Court initially answered in the negative on the assumption that a finding of invalidity of the patent in suit would adequately dispose of the controversy [R. 668].

However, after further discussion, the Court stated he would leave it up to the defendants to prepare the findings, thereby indicating that findings on patent misuse should also be included [R. 669].

The plaintiffs have not contested any of Findings of Fact 51-61 on patent misuse (Appendix).

It is clear that the Trial Court properly held that the plaintiffs are guilty of patent misuse regarding the patent in suit, and are therefore not entitled to any of the relief they have requested.

### 9. The Trial Court Properly Held That the Issue of Infringement Is Moot. (Specification of Error No. 7).

Claim 3 of the patent in suit was properly held to be invalid, and an invalid claim cannot be infringed. *Dresser Industries, Inc. v. Smith-Blair, Inc.*, 322 F. 2d 878, 890 (9 Cir. 1963).

Accordingly, the issue of infringement of claim 3 is moot. *Monogram Mfg. Co. v. F. & H. Mfg. Co.*, 144 F. 2d 412, 414 (9 Cir. 1944).

## Conclusion.

Appellees respectfully request this Court to affirm the judgment of the District Court, and hold that United States Letters Patent No. 3,090,431, and each of claims 1, 2, 3 and 4 thereof, is invalid and void, and that the plaintiffs Spring Crest Company, Thomas A. Stubblefield, James F. Brooks, and John H. Hancock, are guilty of patent misuse and not entitled to any of the relief requested.

Dated: Los Angeles, California, September 3, 1968.

Respectfully submitted,

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## APPENDIX.

### Findings of Fact and Conclusions of Law.

Filed Nov. 14, 1967.

In the United States District Court, Central District of California.

Spring Crest Company, et al. Plaintiffs, v. American Beauti Pleat, Inc., and Orville T. Stall, Defendants. Civil Action No. 65-1272-HW.

This cause having come on for trial before the Honorable Harry C. Westover, and the Court having considered the evidence and testimony and the arguments of counsel, finds the facts to be and states the conclusions of law as follows:

*Findings of Fact*

1. This is an action for the alleged infringement of Letters Patent No. 3,090,431, issued May 21, 1963. Defendants' set up the defenses of invalidity, non-infringement, indefiniteness, and patent misuse.

2. Defendants' filed a counterclaim for declaratory judgment of invalidity and non-infringement of Letters Patent No. 3,090,431.

3. The cause of action alleged in the Complaint arises under the Patent Laws of the United States, Title 35, United States Code, and jurisdiction of this court is based upon Section 1338 (a) of Title 28, United States Code.

4. The counterclaim arises under the laws of the United States of America, and jurisdiction of this court is based upon Sections 2201 and 1338 (a) of Title 28, United States Code, because there is an actual con-

troversy within its jurisdiction existing between Plaintiffs and Defendants in respect of which said Defendants need a declaration of their rights by this court, which controversy arises over the questions of the validity of Letters Patent No. 3,090,431, and the alleged infringement thereof by Defendants.

5. At all of the times mentioned, the plaintiff Spring Crest Company was and now is a corporation duly organized and existing under and by virtue of the laws of the State of California, with its principal place of business in La Habra, County of Orange, State of California.

6. Plaintiffs, Thomas A. Stubblefield, James F. Brooks, and John H. Hancock, are residents, respectively, of King's Beach, Garden Grove and La Habra, State of California.

7. At all of the times mentioned, the defendant American Beauti Pleat, Inc., was and now is a corporation organized and existing under and by virtue of the laws of the State of California, with its principal place of business in Norwalk, County of Los Angeles, State of California.

8. At all of the times mentioned, the defendant Orville T. Stall was and now is a resident of Whittier, County of Los Angeles, State of California, and president of the defendant American Beauti Pleat, Inc.

9. On May 21, 1963, United States Letters Patent No. 3,090,431 (Plaintiffs' Exhibit 1) issued to the plaintiff, Thomas A. Stubblefield, and to the plaintiffs James F. Brooks and John H. Hancock as assignees of said Thomas A. Stubblefield, on application Serial No. 99,112, filed March 29, 1961, by said Thomas

A. Stubblefield. The plaintiffs Thomas A. Stubblefield, James F. Brooks and John H. Hancock now are and since the issuance thereof have been the owners of the entire right, title and interest in and to said Patent No. 3,090,431.

10. Prior to the commencement of this action, the plaintiffs gave written notice to the defendants of the alleged infringement of Patent No. 3,090,431 by a letter dated April 22, 1965, addressed to Defendants by Gausewitz & Carr, and by a letter dated July 22, 1965, addressed to Defendants by Bernard Kriegel.

11. During the discovery period, the plaintiffs admitted that they were charging the defendants with the infringement of only Claim 3 of Patent No. 3,090,431.

12. The individual defendant, Orville T. Stall, is the developer of the spring pleater as used with drapes, said spring pleater being an elongated strip of flat metal in undulant form with spaced apart holes punched therein (Defendants' Exhibit E). In 1948, he commenced the manufacture and sale of drapery hardware for use in hanging drapes, using the aforementioned spring pleater which is inserted in a top hem or header of the drape, and slotted ceiling track (Defendants' Exhibit D) and glides for supporting the drape. He referred to the hardware which he sold as "Beauti Pleat" drapery hardware.

13. In 1955, Ed Lightenburger obtained the franchise to sell "Beauti Pleat" drapery hardware in the counties of Napa and Sonoma in Northern California. At this time, a metal ceiling glide and pin-on hook was used with the spring pleater, and shortly thereafter the metal glide was replaced with a plastic ceil-

ing glide with a wire eyelet similar to that exemplified by Defendants' Exhibit X. The bottom portion of each hook was inserted through one of the holes formed in the spring pleater and through the drapery material in which the spring pleater was inserted. The glides were supported in the ceiling track.

14. In 1959, while working with the drapery hardware installed at the Kaiser Foundation Hospital in Oakland, California, Mr. Lightenburger developed a "close hook-up" drapery assembly employing the aforementioned conventional ceiling track, spring pleater, and plastic ceiling guides with wire eyelets, but instead of using a pin-on hook, he fastened the eye of the glide to the spring pleater with a "post and gripper" of the type exemplified by Defendants' Exhibit R. This type of assembly was installed by him and his associates in approximately one hundred rooms of the hospital, and the installation operated very satisfactorily. Defendants' Exhibit Z shows one of the rooms in the Kaiser Foundation Hospital provided with the new "close hook-up" construction, and Defendants' Exhibit AA shows one view of the windows of the hospital with the old drapery construction and another view of the windows with the new "Beauti Pleat" hardware provided with the improved "close hook-up" connection.

15. In late 1959 and early 1960, Mr. Lightenburger engaged in further experimentation and made a set of twelve plastic ceiling glides with removable hooks made from brass nails (Defendants' Exhibit S) and set up a test installation in the back of his store using this improved glide construction with the conventional ceiling track and the conventional spring pleater. Each of the hooks made from a brass nail had a flattened or T-

shaped head which could be inserted into an elongated hole while Mr. Lightenburger formed in each plastic glide block with a soldering iron, and turned 90 degrees to hold the hook in the block. This permitted the spring pleater and drapery material to be attached to and disengaged from the plastic glides while the latter were positioned in the ceiling track and without removing them from the track. This test installation worked satisfactorily.

16. In early 1960, in the San Francisco area, Mr. Lightenburger showed the plastic ceiling glides with the removable brass hooks to the defendant Stall. When Mr. Stall returned to Los Angeles, he cut from a flat piece of plastic, a drapery glide with a T-shaped head (Defendants' Exhibit T) which was adapted to be inserted into the slot in the conventional ceiling track and turned 90 degrees to extend cross-wise of the slot. The bottom portion of the handmade glide contained a hole for receiving a "post and gripper" connector.

17. In March, 1960, a group of distributors of "Beauti Pleat" drapery hardware attended a meeting in Las Vegas, Nevada, hosted by the defendant Stall who was the manufacturer of the drapery hardware. The plaintiffs John H. Hancock and James F. Brooks attended the meeting as distributors of "Beauti Pleat" hardware. At the meeting, the defendant Stall displayed and demonstrated the new ceiling glide and removable hook with the T-shaped head developed by Mr. Lightenburger.

18. In the summer of 1960, the plaintiff James F. Brooks and John H. Hancock discussed with the plaintiff Thomas A. Stubblefield, the purported disadvantages of removable glides then in use, including the

Wilcox glide (Defendants' Exhibit W), and shortly thereafter the plaintiff Stubblefield conceived of the drapery glide which is shown and described in the patent in suit, Patent No. 3,090,431.

19. On February 8, 1961, the defendant American Beauti Pleat, Inc. obtained a quotation from E & A Plastic And Metal Products (Defendants' Exhibit AI) for the cost of a die to produce Defendants' accused glide (Plaintiffs' Exhibit 24). This glide is also shown in design patent D-194,869 (Defendants' Exhibit AG) which issued to the defendant Stall on March 26, 1963. On February 9, 1961, the defendant American Beauti Pleat, Inc. paid for one half of the cost of the die with its check No. 3,218.

20. In March, 1961, the die for making Defendants' glide (Plaintiff's Exhibit 24) was sent to the molder for making plastic glides therefrom. On or about April 3, 1961, the defendant American Beauti Pleat, Inc. received an invoice (Defendants' Exhibit AJ) for the cost of said die and on or about April 10, 1961, paid the balance with its check No. 3332.

21. In April, 1961 . . . after the filing of the application which matured into the patent in suit . . . the plaintiff John H. Hancock displayed a specimen of the Stubblefield glide (shown in the patent in suit) to the defendant Stall. This was the first time the defendant Stall saw a Stubblefield glide.

22. The alleged invention of Patent No. 3,090,431 pertains generally to the hardware for use with spring-pleated, traverse draperies, which hardware includes a slotted ceiling track formed of sheet metal and adapted to be fastened to the ceiling above the area to be draped

(Defendants' Exhibit D), an elongated undulant metal spring . . . called a "spring pleater" in the trade . . . adapted to be inserted in the upper hem of the drapery to be hung from the ceiling track and containing spaced apart punched holes (Defendants' Exhibit E), and a plurality of glides which are adapted to be removably fastened to the spring pleater at the punched holes and inserted through the slot in the ceiling track to support the spring pleater and the drapery therefrom as the drapery is traversed between the open and the closed positions.

23. Claim 1 of Patent No. 3,090,431 defines a glide per se. It does not require a T-shaped head portion for insertion into the slot of the ceiling track, but instead, merely requires "glide means provided on said body above said fulcrum portion to slidingly support said body from a drapery track." The claim is directed primarily to the construction of the resilient pin which is pivotally mounted on what is referred to as the fulcrum portion of the glide and which is adapted to be supportingly connected to the drapery.

24. Claim 2 adds to Claim 1, the requirement of a detent protrusion to aid in maintaining the resilient pin in the locked position.

25. Many types of glides and many types of pins for connecting the glides to drapes or curtains have been known and used by others in the United States prior to the date when Thomas A. Stubblefield first conceived of the alleged invention which is the subject matter of Patent No. 3,090,431, and more than one year prior to March 29, 1961, the filing date of the application which matured into said patent. Several of

the different types of prior glides are shown on Pages 18 and 19 of the Marshall-McMurry Co. catalog (Defendants' Exhibit I), and in patents No. 2,320,308 (Defendants' Exhibit K) and No. 568,091 (Defendants' Exhibit M). Several of the different types of prior "pins" for connecting glides to drapes and/or curtains are shown in the aforementioned Silverman Patent No. 2,320,308 (Defendants' Exhibits K) and Lounsbury Patent No. 568,091 (Defendants' Exhibit M), and the plaintiffs admitted that the "post and gripper" connection was known and used prior to the date of the alleged invention of the patent in suit.

26. The Stubblefield glide of the patent in suit has not replaced the prior ceiling glide (Defendants' Exhibit F), the prior button glide (Defendants' Exhibit G), nor the prior Wilcox snap-in glide (Defendants' Exhibit W) for drapery installations. The latter continued to be sold in quantity (Defendants' Exhibit I). The sales of the aforementioned Stubblefield glide by the plaintiff Spring Crest Co. increased continuously from 1961 to 1964, and to a lesser extent from 1964 to 1966, but this was the Plaintiffs' glide and they were "pushing it".

27. The glide defined by each of Claims 1 and 2 of Patent No. 3,090,431, does not constitute an invention over the prior art as aforesaid; the resilient pin attachment means is merely a change in degree for accomplishing the same result. The construction defined by each of Claims 1 and 2, taken as a whole, would have been obvious at the time the alleged invention was made in 1960 to a person having ordinary skill in the drapery hardware art.

28. Claim 3 of Patent No. 3,090,431 is directed to the drapery-supporting assembly which includes the ceiling track, the spring pleater, and the glides, and requires:

(a) an elongated undulant spring disposed in a horizontal plane and adapted to be mounted along the upper hem of a drapery to cause said drapery to assume a corresponding undulant shape;

(b) an elongated drapery track having two opposed track portions separated by a gap of predetermined width, said track portions and said gap being disposed generally in a horizontal plane and above said spring;

(c) a plurality of glide and connector means mounted at spaced points along said spring to slidingly support the undulations of said spring from said track as said spring is extended and shortened during opening and closing of the drapery, each of said glide and connector means including

(1) an elongated shoe the width of which in a horizontal plane is less than said predetermined gap width whereby said shoes may be passed upwardly and downwardly through said gap when in positions in substantial alignment therewith,

(2) the length of each of said shoes in a horizontal plane being substantially greater than said predetermined gap width whereby the end portions of said shoes will remain slidingly supported on said opposed track portions when said shoes are in various

positions substantially transverse to said gap,

(3) said shoes being disposed substantially transverse to said gap in supported relationship on said opposed track portions,

(4) each of said glide and connector means further including a connector portion connected with said shoe intermediate said end portions thereof,

(5) the connection between said connector portion and said shoe being adapted to prevent rotation of said connector portion relative to said shoe about a generally vertical axis,

(6) said connector portion extenting downwardly through said gap and being sufficiently small in horizontal dimension that said shoe may rotate about a vertical axis between said position in substantial alignment with said gap and said positions substantially transverse thereto without effecting spreading apart of said opposed track portions,

(7) each of said glide and connector means further including means to connect said connector portion to said spring and to prevent substantial rotation of said connector portion relative to said spring about a generally vertical axis, said last-named means being so related to said connector portion, to said shoe and to said spring that said shoe will remain in said positions substantially transverse to said track despite movement of

the undulations of said spring during normal extending and shortening of said spring to open and close the drapery;

(8) each of said glide and connector means and the associated undulation of said spring being adapted to be manually twisted about a vertical axis to bring the associated shoe into substantial alignment with said gap for passing of said shoe through said gap during assembly or disassembly of said glide and connector means with said track.

29. Claim 4 adds to the construction defined by Claim 3, the further requirement that one of the glide and connector means is connected to each side of each undulation of said spring along the axis of said spring, and the spring is a flat metal strip the minor dimension of which is disposed in a vertical plane.

30. The plaintiffs have admitted that it was old prior to the date when Thomas A. Stubblefield made the alleged invention which is the subject matter of Claim 3 of patent No. 3,090,431, to use in this country a drapery-supporting assembly which comprised:

(a) an elongated undulant spring substantially as shown and described in patent No. 3,090,431, disposed in a horizontal plane and adapted to be mounted along the upper hem of a drapery to cause said drapery to assume a corresponding undulant shape,

(b) an elongated drapery track substantially as shown and described in patent No. 3,090,431

having two opposed track portions separated by a gap of predetermined width, said track portions and said gap being disposed generally in a horizontal plane and above said spring, and

(c) a plurality of button glides (substantially the same as Spring Crest Company No. 400) mounted at spaced points along said spring with post and gripper connectors to slidably support the undulations of said spring from said track as said spring is extended and shortened during opening and closing of the drapery.

31. The plaintiffs have admitted that it was old prior to the date when Thomas A. Stubblefield made the alleged invention which is the subject matter of Claim 3 of patent No. 3,090,431, to use in this country a drapery-supporting assembly which comprised:

(a) an elongated undulant spring substantially as shown and described in patent No. 3,090,431, disposed in a horizontal plane and adapted to be mounted along the upper hem of a drapery to cause said drapery to assume a corresponding undulant shape,

(b) an elongated drapery track substantially as shown and described in patent No. 3,090,431 having two opposed track portions separated by a gap being of predetermined width, said track portions and said gap being disposed generally in a horizontal plane and above said spring, and

(c) a plurality of ceiling glides (substantially the same as Spring Crest Company No. 420) mounted at spaced points along said spring with post and gripper connectors to slidably support

the undulations of said spring from said track as said spring is extended and shortened during opening and closing of the drapery.

32. Prior to the date when Thomas A. Stubblefield first conceived the alleged invention which is the subject matter of the patent in suit, various types of glides were used by others in the United States for supporting the conventional spring pleater (Defendants' Exhibit E) from conventional ceiling tracks (Defendants' Exhibit D) with the spring pleater inserted in the top hem or header of the drapery, the glides being fastened to the spring pleater and the drapery by means of the post and gripper connection shown in Defendants' Exhibits R and W. These previously known glides include the ceiling glide (Defendants' Exhibit F), the button glide (Defendants' Exhibit G), and the Wilcox glide (Defendants' Exhibit W). The Wilcox glide (Defendants Exhibit W) is designed so that the upper portions thereof can be squeezed together and the glide inserted into the slot in the track without sliding it in from the end of the track. In like manner, button glides have been "clipped", as represented by Defendants' Exhibit H, and tilted and inserted into the slot in the track to replace broken glides.

33. The plaintiffs assert that the assembly defined by Claim 3 is a novel combination because it permits the spring pleater and the glides (together with the drapery mounted on the spring pleater) to be inserted into and removed from the track by progressively twisting a section of the spring pleater and the glide fastened thereto, so that the T-shape head of the glide turns approximately 90 degrees, whereby the head can be passed through the slot in the ceiling track. Also,

that in use, the spring pleater maintains the shoes or T-shaped heads of the glides substantially transverse to the track as the drapery is opened and closed.

34. Silverman Patent No. 2,320,308 (Defendants' Exhibits K, L, and V) which issued May 25, 1943, is prior art to the patent in suit because the invention disclosed therein was patented and described in a printed publication in the United States more than one year prior to March 29, 1961, the filing date of the application which matured into the patent in suit.

35. Silverman Patent No. 2,320,308 was not cited as a reference by the examiner during the prosecution of the application which matured into the patent in suit.

36. Silverman Patent No. 2,320,308 (Defendants' Exhibits K and V) states that the invention described therein relates particularly to the hooks by which the curtain is movably and removably suspended [from the track], and twelve of the fourteen claims in the patent (i.e. all of the claims except claims 3 and 13) are directed to the hook or glide per se.

37. The Silverman hook or glide includes a T-shaped head 21 (Figs. 1 & 2) which is designed to be inserted through the slot 16 and turned 90° so as to extend transversely of the slot and thereby support the drape or curtain 31 from the track 15.

38. Silverman Patent No. 2,320,308 (Defendants' exhibits K and V) shows and describes a hook or glide 14 (Figs. 1 & 4) which is strikingly similar in construction to Defendants' accused glide (Plaintiffs' Exhibit 24) in that it also includes a T-shaped head which is adapted to be inserted through the slot in a track, and

a bifurcated lower portion which is adapted to receive and support a spring pleater and drapery between the depending legs thereof.

39. Defendants' Exhibit AM is a demonstrative, operative assembly of a length of conventional ceiling track and a length of conventional spring pleater, provided with hand-made models of the Silverman form of glide or hook fastened to the spring pleater at the same holes where the ceiling glides, button glides, or Wilcox glides would be fastened. Some are fastened to the spring pleater with the same type of pin shown in Fig. 4 of patent No. 2,320,308 and some are fastened with the "post and gripper". The T-shaped heads of the models of the Silverman glides are rotated 90 degrees from the position shown in the Silverman Patent.

40. The aforementioned operative assembly containing the hand-made models of the Silverman glide (Defendants' Exhibit AM), contains elements which are the full equivalent of the elements specified in the alleged combination defined by each of claims 3 and 4 of the patent in suit, and the elements of said operative assembly operate in the same manner as the elements in the alleged combination of claims 3 and 4, to achieve the same result.

41. The spring pleater in the operative assembly, Defendants' exhibit AM, maintains the hand-made models of the Silverman glides with the T-shaped heads substantially transverse to the track in the same manner in which the same spring pleater maintains the Stubblefield glides with their T-shaped heads substantially transverse to the track, as defined in claim 3.

42. Neither claim 3 nor claim 4 defines any invention over the assembly of ceiling track, spring pleater,

and glides which were known and used by others in the drapery field in this country more than one year prior to March 29, 1961, the filing date of the application which matured into the patent in suit, and prior to the summer of 1960 when Mr. Stubblefield first conceived the alleged invention of the patent in suit. At the time the alleged invention defined by each of claims 3 and 4 was made, it would have been obvious to a person having ordinary skill in the drapery art to substitute the Silverman glide of patent No. 2,320,308, with the head thereof turned 90 degrees, for and in place of previously known glides used with the same previously known ceiling track and previously known spring pleater. At the time the alleged invention defined by claims 3 and 4 was made, the subject matter thereof as a whole would have been obvious to a person having ordinary skill in the drapery art.

43. Lounsbury Patent No. 568,091 (Defendants' Exhibits M, N, and V) which issued September 22, 1896, is prior art to the patent in suit because the invention disclosed therein was patented and described in a printed publication in the United States more than one year prior to March 29, 1961, the filing date of the application which matured into the patent in suit.

44. Lounsbury Patent No. 568,091 was not cited as a reference by the Examiner in the Patent Office during the prosecution of the application which matured into the patent in suit.

45. Lounsbury Patent No. 568,091 shows and describes a T-headed runner or glide I which was designed to be passed upwardly through the slot in the track and turned 90° so as to extend transversely of the slot and

support the curtain or drape from the track. As shown in Fig. 1 of the Lounsbury patent, the shank of the runner or glide is provided with an eyelet of the same type used with the conventional ceiling glide (Defendants' Exhibits F and S) for receiving a "post and gripper" connector.

46. Defendants' Exhibit AO is a demonstrative, operative assembly of a length of conventional ceiling track and a length of conventional spring pleater, provided with hand-made models of the Lounsbury form of glide or runner as shown in Fig. 1 of Patent No. 568,091, fastened to the spring pleater with "post and gripper" connectors at the same holes in the spring pleater where the ceiling glides, button glides, or Wilcox glides would be fastened.

47. The aforementioned operative assembly containing the hand-made models of the Lounsbury glide (Defendants' Exhibit AO), contains elements which are the full equivalent of the elements specified in the alleged combination defined by each of claims 3 and 4 of the patent in suit, and the elements of said operative assembly operate in the same manner as the elements in the alleged combination of claims 3 and 4, to achieve the same result.

48. The spring pleater in the operative assembly (Defendants' Exhibits AO) maintains the hand-made models of the Lounsbury glides with the T-shaped heads substantially transverse to the track in the same manner in which the same spring maintains the Stubblefield glides with their T-shaped heads substantially transverse to the track, as defined in claim 3.

49. Neither claim 3 nor claim 4 defines any invention over the assembly of ceiling track, spring

pleater, and glides which were known and used by others in the drapery field in this country more than one year prior to March 29, 1961, the filing date of the application which matured into the patent in suit, and prior to the summer of 1960 when Mr. Stubblefield first conceived the alleged invention of the patent in suit. At the time the alleged invention defined by each of claims 3 and 4 was made, it would have been obvious to a person having ordinary skill in the drapery art to substitute the Lounsbury glide of Patent No. 568,091 for and in place of previously known glides used with the same previously known ceiling track and previously known spring pleater. At the time the alleged invention defined by claims 3 and 4 was made the subject matter thereof as a whole would have been obvious to a person having ordinary skill in the drapery art.

50. Silverman Patent No. 2,320,308 (Defendants' Exhibit L) and Lounsbury Patent No. 568,091 (Defendants' Exhibit M) are more pertinent than the patents cited by the Examiner during the prosecution of the application which matured into the patent in suit.

51. Defendants' Exhibit P is a photocopy of an "Agreement" entered into by and among Spring Crest Company, Thomas A. Stubblefield, James F. Brooks and John H. Hancock, the plaintiffs herein, during July, 1963.

52. Defendants' Exhibit Q is a photocopy of a portion of a catalog of Spring Crest Company, and lists and illustrates various of the drapery hardware and/or drapery hardware accessory items listed in Schedule A of the Agreement, Defendants' Exhibit P.

53. The Agreement, Defendants' Exhibit P, was in effect on August 23, 1965, the filing date of the Complaint in the present civil action, and it was continuously in effect during the period August 23, 1965, to and including July 7, 1966, the date of the taking of Mr. Stubblefield's deposition.

54. There is no other patent or patent application included in the Agreement, Defendants' Exhibit P, other than the patents and applications (and the patents which matured therefrom) listed on Pages 2 and 3 of said Agreement.

55. The only patents and applications included in the Agreement, Defendants' exhibit P, on August 23, 1965, when the Complaint was filed in the present legal action are:

(a) Patent No. 3,090,431,

(b) Patent No. 3,119,443 which matured from application Serial No. 182,063, and

(c) Application Serial No. 244,167, now Patent No. 3,197,990.

56. None of the following listed items contained in Schedule A of the Agreement, Defendants' exhibit P, considered singularly or in combination with other elements, is comprehended within or manufactured in accordance with a process or machine covered by a claim of any of patents No. 3,090.431, No. 3,119,443 and No. 3,197,990, or shown or described in any existing patent or pending patent application owned in whole or in part by any of the plaintiffs subsequent to July 1, 1963:

(a) drop housing insert, No. 225-255,

(b) return plate No. 270,

(c) top lock, No. 290,
(d) master carrier, No. 300,
(e) master carrier converter, No. 340,
(f) spacer, No. 450,
(g) spacer, No. 460,
(h) track cap, Nos. 840 and 850,
(i) stirrups, No. 860,
(j) wall bracket, Nos. 880 and 890,
(k) wall bracket double, No. 895 and
(l) threader, No. 960.

57. The "pin on glide" No. 430, listed in Schedule A of the Agreement, Defendants" exhibit P, is the combination glide and pin element described and claimed in patent No. 3,090,431, the patent in suit.

58. Paragraph 6 of the Agreement, Defendants' exhibit P, provides, inter alia:

> "Spring Crest hereby agrees to pay to each of Brooks and Hancock a royalty of two per cent (2%), and to Stubblefield a royalty of three per cent (3%), of the gross sales price (less volume discounts and other legitimate trade discounts) received by Spring Crest relative to all drapery hardware and drapery hardware accessories specified on the attached Schedule A, or on any modified schedule (specifying all parts by name and number) signed hereafter by all parties to this Agreement."

59. Subsequent to August 23, 1965, and during the pendency of this action, one or more of the plaintiffs, Thomas A. Stubblefield, James F. Brooks, and John H. Hancock, received a royalty payment from the plaintiff Spring Crest Company under the Agreement, Defend-

ants' exhibit P, based on the sale of the following listed items in Schedule A:

(a) drop housing insert, No. 225-255,
(b) return plate No. 270,
(c) top lock, No. 290,
(d) master carrier, No. 300,
(e) master carrier converter, No. 340,
(f) spacer, No. 450,
(g) spacer, No. 460,
(h) track caps, Nos. 840 and 850,
(i) stirrups, No. 860,
(j) wall bracket, Nos. 880 and 890,
(k) wall bracket double, No. 895 and
(l) threader, No. 960.

60. Paragraph 9 of the Agreement, Defendants' exhibit P, provides, inter alia:

> "Stubblefield hereby agrees that Spring Crest has the exclusive right to manufacture, use and sell all articles specified on the attached Schedule A or any modification thereof, and specifically agrees not to license or induce any organization other than Spring Crest to manufacture, use or sell any of such items, and further specifically agrees not to engage in the manufacture, use or sale of any of such items except through Spring Crest."

61. Because of the aforementioned provision of paragraph 9 in the Agreement, Defendants' exhibit P, the plaintiff Thomas A. Stubblefield refrained from engaging in the manufacture, use or sale of the unpatented items listed in Schedule A of the Agreement, Defendants' exhibit P, and refrained from inducing any organization other than Spring Crest to manufacture, use or sell any of such items.

*Conclusions of Law*

I.

This Court has jurisdiction over the parties and over the subject matter of the Complaint and the Counterclaim, and venue is proper.

II.

United States Letters Patent No. 3,090,431 issued on May 21, 1963, to the plaintiffs Thomas A. Stubblefield, James F. Brooks and John H. Hancock, and said plaintiffs now are and at all times have been the owners of all right, title and interest therein.

III.

The ultimate question of patent validity is one of law. *Graham v. John Deere Co.,* 383 U.S. 1, 86 S.Ct. 684, 15 L.Ed. 2d 545; *Bentley v. Sunset House Distributing Corp.,* 359 F.2d 140 (9 Cir. 1966).

IV.

Claim 1 of Patent No. 3,090,431 is invalid and void because the differences between the subject matter covered thereby and the prior art are such that said subject matter as a whole would have been obvious at the time the alleged invention was made to a person having ordinary skill in the drapery art. 35 U.S.C. 103; *Graham v. John Deere Co.,* 383 U.S. 1, 86 S.Ct. 684, 15 L.Ed. 2d 545.

V.

Claim 2 of Patent No. 3,090,431 is invalid and void for the same reasons that Claim 1 is invalid and void.

VI.

Claim 3 of Patent No. 3,090,431 is invalid and void because the differences between the subject matter

covered thereby and the prior art are such that said subject matter as a whole would have been obvious at the time the alleged invention was made to a person having ordinary skill in the drapery art. 35 U.S.C. 103; *Graham v. John Deere Co.,* 383 U.S. 1, 86 S.Ct. 684, 15 L.Ed. 2d 545.

VII.

Claim 3 of Patent No. 3,090,431 is also invalid and void because it defines an aggregation or accumulation of old parts or elements, which, in the aggregation, do not perform or produce any new or different function or operation upon being brought together. The whole does not exceed the sum of the parts. *Great A. & P. Tea Co. v. Supermarket Equipment Corporation,* 340 U.S. 147, 71 S.Ct. 127, 95 L.Ed. 162, 163; *Bentley v. Sunset House Distributing Corp.,* 359 F.2d 140 (9 Cir. 1966).

VIII.

Claim 4 of Patent No. 3,090,431 is invalid and void for the same reasons that Claim 3 is invalid and void.

IX.

The statutory presumption of the validity of Patent No. 3,090,431 has been overcome. Where, as here, the most pertinent prior art was not considered by the examiner in the Patent Office during the prosecution of the application which matured into said patent, the presumption is largely dissipated. *Jacuzzi Bros. v. Berkeley Pump Co.,* 191 F.2d 632, 634 (9 Cir. 1951).

X.

All of the claims of Patent No. 3,090,431 being invalid and void, the issue of infringement is moot.

*Monogram Mfg. Co. v. F. & H. Mfg. Co.,* 144 F.2d 412, 414 (9 Cir. 1944).

XI.

The plaintiffs Spring Crest Company, Thomas A. Stubblefield, James F. Brooks, and John H. Hancock are guilty of patent misuse regarding Patent No. 3,-090,431, commencing with a date prior to the filing of the Complaint herein on August 23, 1965, and continuing through the trial of this action, and are therefore not entitled to any of the relief requested. *Mercoid Corp. v. Mid-Continent Invest. Co.,* 320 U.S. 661, 64 S.Ct. 268, 88 L.Ed. 376; *Mercoid Corp. v. Minneapolis-Honeywell Regulator Company,* 320 U.S. 680, 64 S.Ct. 278, 88 L.Ed. 396; rehearing denied 321 U.S. 802, 64 S.Ct. 526, 88 L.Ed. 1089; *Vitamin Technologists v. Wisconsin Alumni Research Foundation* (9 Cir. 1945), 146 F.2d 941, 945, cert. denied 325 U.S. 876, 65 S.Ct. 1554, 89 L.Ed. 1994, rehearing denied 326 U.S. 804, 66 S.Ct. 12, 19 L.Ed. 490.

XII.

The defendants American Beauti Pleat, Inc., and Orville T. Stall are entitled to recover of the plaintiffs their taxable costs and disbursements and to have execution therefor.

Judgment shall be entered in accordance with the above Findings of Fact and Conclusions of Law.

Dated: Nov. 14, 1967.

/s/ Harry C. Westover
United States District Judge

Submitted by:
Harris, Kiech, Russell & Kern
By /s/ Chas. E. Wills
Attorneys for Defendants

## Judgment.

Filed: Nov. 14, 1967
Entered: Nov. 14, 1967

In the United States District Court, Central District of California.

Spring Crest Company, et al. Plaintiffs, v. American Beauti Pleat, Inc., and Orville T. Stall, Defendants. Civil Action No. 65-1272-HW.

This cause having been heard by the Honorable Harry C. Westover, and the Court being fully advised and having made its Findings of Fact and stated its Conclusions of Law,

IT IS ORDERED, ADJUDGED AND DECREED that:

1.

Plaintiffs' Complaint is dismissed with prejudice.

2.

United States Letters Patent No. 3,090,431, and each of Claims 1, 2, 3 and 4 thereof, is invalid and void.

3.

The defendants American Beauti Pleat, Inc., and Orville T. Stall shall have and recover of the plaintiffs Spring Crest Company, Thomas A. Stubblefield, James F. Brooks, and John H. Hancock, the taxable costs and disbursemens of said defendants in the sum $........................ and have execution therefor.

Dated: Nov. 14, 1967.

/s/ Harry C. Westover
United States District Judge

Submitted By:

Harris, Kiech, Russell & Kern
By /s/ Chas. E. Wills,
Attorneys for Defendants.

## No. 22,679

IN THE

# United States Court of Appeals
## For the Ninth Circuit

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| | |
|---|---|
| SPRING CREST COMPANY, a corporation, THOMAS A. STUBBLEFIELD, JAMES F. BROOKS, and JOHN H. HANCOCK, *Appellants*, vs. AMERICAN BEAUTI PLEAT, INC., a corporation, and ORVILLE T. STALL, *Appellees*. | |

**Appeal from Judgment of the United States District Court for the Central District of California**

## APPELLANTS' REPLY BRIEF

---


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PERNAU-WALSH PRINTING CO., SAN FRANCISCO

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No. 22,679

IN THE

# United States Court of Appeals
## For the Ninth Circuit

---

SPRING CREST COMPANY, a corporation, THOMAS A. STUBBLEFIELD, JAMES F. BROOKS, and JOHN H. HANCOCK,

*Appellants,*

vs.

AMERICAN BEAUTI PLEAT, INC., a corporation, and ORVILLE T. STALL,

*Appellees.*

---

**Appeal from Judgment of the United States District Court for the Central District of California**

## APPELLANTS' REPLY BRIEF

---

In Appellees' Brief it is stressed over and over again that (save for a portion of Finding of Fact 21) the Findings of Fact are *uncontested.* The inference is that the Findings are completely dispositive of the matter and that there is no real basis for the appeal. This is not so. As worded, the statements of fact contained in the Findings are generally supported by the record. As a consequence, such statements have not been contested. However, the Findings are just as important for what they do not say as well as for what they do.

Merely as an illustration, defendants state on page 5 of their brief:

> "The Stubblefield glide of the patent in suit has not replaced the prior ceiling glide [Ex. F], the prior button glide [Ex. G], nor the prior Wilcox snap-in glide [Ex. W] for drapery installations. The latter continue to be sold in quantity [*uncontested* Finding of Fact 26, Appendix]."

Factually, this statement is correct—but misleading. The present invention was made for a particular form of drapery installations, namely "close hook-up" installations using spring pleaters (R. 263). In this particular area, the new glide did replace the prior glides. This was true for plaintiffs' glides (Ex. 31). This was true for defendants' glide (Ex. AF). Although there was testimony that the prior art glides (Exs. F, G and W) are still being sold (R. 377-379), there is no evidence that such glides are being used for close hook-up drapery installations using spring pleaters. For that matter there is no testimony or evidence concerning the relative volumes of sales of the various glides so that the term "in quantity" has any particular meaning.

Thus, Finding of Fact 26 avoids the issue. It merely states (accurately) that the new glides have not replaced the prior art glides for "drapery installations" (which includes *all* kinds of drapery installations) and that such prior art glides are sold "in quantity". The Finding does not say that the new glides have not replaced the prior art glides for close hook-up spring-pleated drapery installations. Indeed, if it had, such Finding would have been contested because it would be untrue.

Other instances in which the Findings are technically accurate but misleading are set forth below in reply to the points discussed in defendants' brief. The numbering below is the same as that used by defendants in their brief.

---

### 1. THE ISSUES BEFORE THIS COURT.

The thrust of defendants' argument on this point is not understood. The issues are those presented in the Specification of Errors in the opening brief, which are fully believed to be presented in proper manner.

For example, Error No. 2 states: "The District Court erred in holding claims 3 and 4 of Patent No. 3,090,431 invalid as being obvious under 35 U.S.C. 103." Such Specification of Error challenges Conclusions of Law VI and VIII. Such Specification of Error also challenges Findings of Fact 42 and 49 which are couched in the language of 35 U.S.C. 103, and are to be regarded as conclusions of law. *National Lead Co. v. Western Lead Products Co.,* 291 F.2d 447 (C.A. 9, 1961). Finding of Fact 27, relating to the "obviousness" of claims 1 and 2 is similarly a conclusion of law, and is challenged by Specification of Error No. 5.

Thus, when defendants state that all Findings of Fact (save No. 21) are uncontested, this is not so. The conclusions of law set forth in Findings of Fact 27, 42 and 49 are contested.

**2. THE DISTRICT COURT ERRED IN HOLDING CLAIMS 3 AND 4 INVALID AS DEFINING AGGREGATIONS OR ACCUMULATIONS OF OLD PARTS OR ELEMENTS, WHICH, IN AGGREGATION, DO NOT PRODUCE ANY NEW OR DIFFERENT FUNCTION UPON BEING BROUGHT TOGETHER, AND IN WHICH THE WHOLE DOES NOT EXCEED THE SUM OF THE PARTS. (SPECIFICATION OF ERROR NO. 1)**

In our opening brief, at pages 21-23, it has been pointed out fully that there is a new cooperation between the old spring pleater and new glides as the draperies are hung, as the draperies are opened and closed, and as the draperies are taken down for cleaning. There is also a new cooperation between the old track and new glides.

It is quite obvious that the District Court did not understand or appreciate these new cooperative functions, and believed that the only contribution of the invention was to keep the glides crosswise to the track.

> "As I see it, the only thing that we have is this attaching of the glides to the undulating spring pleater so that the glides would remain crosswise to the track. The question I ask is, is that invention? That is what we are coming down to, whether that is invention." (R. 630)

Significantly, there are *no* Findings of Fact which support the conclusion that there is no new cooperative result. Defendants refer to *uncontested* Findings of Fact 30-32 (Tr. 279-281), which state in essence that the ceiling track and spring pleater are old and unchanged elements and that prior glides have been fastened in the same holes in the old spring pleater and used with the old track to support draperies. This is true. However, the Findings do not say that they function together in the same manner and obtain the same results. If the

Findings did so say, they would be contrary to the evidence.

Defendants also claim that the established and *uncontested* Findings 33-41 and 43-48 (Tr. 281-284) show that old elements taken from the prior art operate in the same manner as the three elements of claims 3 and 4, to achieve the same results. Such contention must be taken with a grain of salt. Findings 33-41 state no more than that it is possible to take the glide of the Silverman patent from the particular track in which it was designed to operate, *change the design of the glide,* then put it into a different track and use it (for the first time) with a spring pleater. Findings 43-48 similarly state that it is possible to take *a portion of the glide* of the Lounsbury patent, put it into a different track than that in which it was designed to operate and use it (for the first time) with a spring pleater. These Findings then state that such new combinations would operate in the same manner as the three elements of claims 3 and 4, to achieve the same results.

These Findings merely say that it is now possible to find elements in the prior art which, when assembled together, will duplicate the patented invention. They do *not* say that the prior art operated in the same manner as, and prior to, the patented invention.

---

## 3. THE TRIAL COURT ERRED IN HOLDING CLAIMS 3 AND 4 INVALID AS OBVIOUS. (SPECIFICATION OF ERROR NO. 2)

It is still quite plain that the Trial Court did not base its decision on the question of obviousness under 35 U.S.C. § 103. On the last day of trial, and during the

course of final arguments, the Court stated: "I am not interested in the ordinary skill of the art . . ." (R. 650). Very shortly thereafter, in the same court session and at R. 668, the Court held the patent invalid. The only reason assigned was that there was "no invention in this case." Taken in context with the Court's remarks at R. 639: "I know, but you can't claim anything from the spring pleater. There is nothing there that you have done that you have added to the spring pleater. You haven't even added a hole to the spring pleater.", it is evident that the only reason for the Court's holding of "no invention" is that the Court erroneously believed the combination including an old, unchanged spring pleater to be unpatentable.

In its argument here defendants state that the present invention is "obvious" in view of a Lightenburger glide (Ex. S). There is no substantiation for this conclusion in any of the Findings of Fact. Moreover, the Lightenburger glide (Ex. S) is not prior art—the record is clear that such glides were made as an experiment and never sold nor installed (R. 358-359).

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### 4. THE DRAPERY ASSEMBLY OF CLAIMS 3 AND 4 WAS NOT OBVIOUS IN VIEW OF ALL OF THE PRIOR ART INCLUDING THE SILVERMAN AND LOUNSBURY PATENTS (SPECIFICATION OF ERROR NO. 2)

The reasons for our position on this are fully set forth at pages 24 to 33 of the opening brief and need not be repeated here.

We do wish to take exception to defendants' statement (page 20 of their brief):

> "Thus, 'the difference between the prior art and the claims in issue' (*Graham v. John Deere Co., supra*) is the substitution of other prior glides (Silverman and Lounsbury type glides) for and in place of other prior glides, in the *same* holes in the old spring pleater, for use with the old slotted track."

This is not the difference that we have here. There is no substitution of a Silverman or Lounsbury glide into combination with a spring pleater and standard track in place of the prior art glides which had been used in such combination. Such a substitution would be inoperative, as discussed in the opening brief.

Instead, the difference is this. The Silverman and Lounsbury patents disclose glides attached to curtains without spring pleaters and riding in specially shaped tracks, and incapable of obtaining the results achieved by the present invention. The "substitution" referred to by defendants is the taking of the Silverman or Lounsbury glides, modifying the Lounsbury glide or taking a part only of the Lounsbury glide so that they will work in a combination in which they had never been used before, and then putting them into such a combination to achieve results never before obtained.

We well recognized that the ordinary man skilled in the art is presumed to have knowledge of the prior art. But the ordinary man is only interested in prior art to the extent that it provides solutions to his present problems. The Silverman and Lounsbury patents simply do not provide solutions to close hook-up drapery installation problems.

### 5. THE DISTRICT COURT ERRED IN ADOPTING FINDING OF FACT NO. 21 IN FULL. (SPECIFICATION OF ERROR NO. 3)

This error of the Court has been fully discussed in the opening brief.

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### 6. THE DISTRICT COURT ERRED IN REFUSING TO DISMISS THE COUNTERCLAIM INSOFAR AS IT RELATES TO CLAIMS 1 AND 2. (SPECIFICATION OF ERROR NO. 4)

There simply is no controversy here as to claims 1 and 2 (to the specific glide shown in the patent in suit).

Regardless of any interpretation of early charges of infringement (which never specifically mentioned claims 1 and 2), by May 24, 1966, *more than a year prior to trial,* plaintiffs' charge of infringement had been limited to claim 3 (Tr. 50). In Defendants' Pre-Trial Statement of July 12, 1966, *eleven months prior to trial,* one of the issues to be tried by the Court was stated to be "Is patent 3,090,431 and particularly claim 3 thereof, valid?" (Tr. 108, par. 4).

The issue of validity and infringement of claims 1 and 2 here is completely moot. Regardless of the outcome of this case, plaintiffs can never hereafter contend that defendants' glide infringes claims 1 and 2. What, then, can be defendants' interest in these claims?

The only possible explanation that we can see for defendants' present insistence upon an advisory opinion of invalidity of claims which it is not infringing is a desire on their part to hereafter copy the particular construction of the glide shown in and claimed by claims 1 and 2 of the patent if the invalidity thereof is upheld. This Court should not be used for such purposes.

### 7. THE DISTRICT COURT ERRED IN HOLDING CLAIMS 1 AND 2 INVALID AS "OBVIOUS". (SPECIFICATION OF ERROR NO. 5)

The glide defined by claims 1 and 2 is a specific glide invented by Mr. Stubblefield for close hook-up installations. Among its advantages were the facts that it combined a glide and connector means (for attachment to a spring pleater) into a single unit. When secured to a spring pleater, it can be locked thereto so that the glide is held solidly thereto without horizontal or vertical rotation relative to the pleater (R. 91). Before the invention, glides had always been attached to draperies by separate pin on hooks or by post and grippers. These had to be handled by the workman separately from the glides (R. 37-39) and in the case of post and grippers, the parts would often pop off and become lost (R. 92).

Claims 1 and 2 contain many limitations as to the construction of the glide, such as its fulcrum portion, pin seat means spaced below the fulcrum portion, a resilient pin mounted on the fulcrum in such manner that a portion of the pin can cooperate with the pin seat means for locking and unlocking, and so forth.

The prior art produced at the trial is completely devoid of anything suggestive of what is set forth in claims 1 and 2, and the Findings of Fact are silent as to any reasoning whereby these claims should be held to be obvious.

The only Findings touching upon this point are Findings of Fact 25, 26 and 27 (Tr. 276-277). Finding of Fact 25 says that there have been many types of glide and many types of pins used before, specifying the glides

shown on pages 18 and 19 of the catalog Exhibit I and the Silverman and Lounsbury patents (Exs. K and M), and specifying the pins of the two patents (Exs. K and M) and post and grippers.

In contrast to the device of claims 1 and 2, *all* of these prior art devices use separate pins to attach the glides to draperies. *None* shows a combined glide and connector means, much less one having a fulcrum means, or pin seat or resilient pin mounted thereon in such a manner that it can lock or unlock.

Finding of Fact 26 states that the Stubblefield glide has not replaced the prior art glides for drapery installations and that the prior art glides are still sold in quantity. As pointed out previously, we are here concerned with close hook-up drapery installations, not the complete field of drapery installations.

Finding of Fact 27 merely states that claims 1 and 2 do not constitute an invention over the prior art, because the resilient pin attachment means is merely a change in degree for accomplishing the same result.

There still is no basis or explanation in the record for what this "change of degree" is, nor what the "same result" is. A specific design of a one-piece lockable glide and connector means is not the same thing as a conventional glide with a separate unlockable post and gripper. This Finding sheds no more light than one which might say, "Apples and bananas are merely changes in degree of fruit for the purpose of being eaten."

Finding of Fact 27 concludes with a paraphrase of § 103 and states that the subject matter of claims 1 and

2 is obvious. Again, this is purely conclusionary and unhelpful in indicating upon what basis the conclusion was reached.

Defendants suggest in their brief that the claims 1 and 2 should be held invalid because counsel for plaintiffs stated that glides other than that of the patent in suit could possibly be attached in a thousand ways to a spring pleater. The rationale for defendants' suggestion eludes us. The statement is hardly testimony, and probably an overstatement anyway. In any event, such statement should be interpreted as meaning there are a thousand ways to attach a glide incorrectly, but only one way—the patented way—to do it right.

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### 8. THERE HAS BEEN NO PATENT MISUSE HERE. (SPECIFICATION OF ERROR NO. 6)

The basis for the conclusion of "patent misuse" is the existence of the July 2, 1962 license agreement (Ex. P) between plaintiffs Stubblefield, Brooks and Hancock as licensors and plaintiff Spring Crest Company as licensee, and the activities of the plaintiffs relative thereto.

The facts are simple. Under this agreement, the licensors agreed to license Spring Crest exclusively and Spring Crest agreed to pay royalties on (a) various items of patented drapery hardware invented by Stubblefield for Spring Crest and (b) various items of unpatented drapery hardware developed in whole or in part for Spring Crest by Stubblefield. Prior to the agreement, Stubblefield had assigned his interest in his

inventions and developments to Brooks and Hancock (Ex. P) for reasons not in the record here.

This was the only compensation received by Stubblefield for his work (R. 598-599). Royalties were paid on both patented and unpatented items.

By the agreement, Mr. Stubblefield also agreed not to, and refrained from, licensing or inducing others to make, use or sell the specific items which Stubblefield had designed and licensed exclusively to Spring Crest (Findings of Fact 60, 61, Tr. 287, 288). There is nothing contrary to public policy in this. "In the absence of express provisions to the contrary, the grant of an exclusive license implicitly precludes the patent owner from competition with the licensee in the patented product." *Bengar Laboratories, Limited v. R. K. Laros Company,* 209 F.Supp. 639 (D.C. Pa., 1962). Here the agreement merely makes express what would otherwise be implied. No difference in principle is seen whether the licensed articles are patented or unpatented, or both.

There was no coercion here. The licensees did not refuse to grant a license under the patent in suit unless the licensor agreed to pay royalties for the unpatented items developed by Stubblefield, nor did the licensee seek such a license (R. 599-600). Instead, the licensee agreed willingly to pay royalties on all items developed for it by Stubblefield.

Yet, this agreement, wherein a designer is compensated for his efforts, is now characterized by defendant as "a scheme to expand a patent beyond its legitimate scope" and a subversion of public policy.

Plaintiffs have been and still are unaware of any authority which condemns this simple situation. The cases cited in Conclusion of Law XI certainly do not.

*Mercoid Corp. v. Mid-Continent Investment Co.*, 320 U.S. 661, 64 S. Ct. 268, presented a situation wherein a licensor licensed its patent in such way that the patented combination could only be made using unpatented switches made by the licensor. This, of course, prevented anyone else from making unpatented parts for use in the patented combination, and thus was a use of the patent to control manufacture of unpatented parts. Here the licensors Stubblefield et al. do not manufacture anything, nor is there any requirement that the licensee, Spring Crest, buy or obtain any parts from the licensors.

*Mercoid Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 64 S.Ct. 278, held it to be a patent misuse wherein the licensor licensed switch manufacturers in such manner that the patented combination could be made using only unpatented switches manufactured by the licensees. In the present situation, the agreement (Ex. P) contains no such provision. There is no requirement that the licensee, Spring Crest, must use unpatented parts manufactured by Spring Crest and Spring Crest alone in the combination of the patent in suit. Anyone else is perfectly free to manufacture and sell such parts for use in the patented combination.

*Vitamin Technologists v. Wisconsin Alumni Research Foundation* (9 Cir. 1945), 146 F.2d 941, is a case wherein it was held to be patent misuse to refuse, by a licensing program, to allow Vitamin D to be added to Oleomargarine. This case has utterly no application here.

Moreover, for "patent misuse" to exist, there must be some showing that the patent has been used in an attempt to control competition in unpatented goods.

> *McCullough Tool Co. v. Well Surveys Inc.,* 343 F.2d 381 (C.A. 10, 1965).
>
> "* * * However, in order to constitute a misuse, there must be an element of coercion, such as where there has been a request by a prospective licensee for a license under less than all of the patents and a refusal by the licensor to grant such a license. *Automatic Radio Mfg. Co. v. Hazeltine Research Inc.,* 339 U.S. 827, 70 S.Ct. 894, 94 L.Ed. 1312. * * *"

The facts here show no such coercion (and indeed show to the contrary, R. 599-600), nor do they show any attempt by the licensors to control the manufacture, use or sale of unpatented parts by means of the patent in suit.

Defendants have certainly failed to cite any authority condemning, or to advance any reason for condemning, a willing agreement of a company to pay a designer for products, both patented and unpatented, which the designer has made for the company. This Court should not now declare such a situation to be against public policy.

9. **THE DISTRICT COURT ERRED IN FAILING TO FIND CLAIM 3 WAS INFRINGED. (SPECIFICATION OF ERROR NO. 7)**

The reasons for this error are adequately covered in the opening brief.

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## CONCLUSION

For the reasons expressed in Appellants' Opening and Reply Briefs, appellants respectfully request this Court to reverse the judgment of invalidity as to claims 3 and 4, to strike the portion of the judgment of invalidity of claims 1 and 2, to reverse the holding of patent misuse, and to hold that claim 3 of the patent in suit is valid and infringed by appellees.

Dated, San Francisco, California,
September 12, 1968.

Respectfully submitted,
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See this Vol. additional papers

No. 22678

# United States
# Court of Appeals
## for the Ninth Circuit

PAUL EDWARD SIMON

*Appellant*

*vs.*

UNITED STATES OF AMERICA

*Appellee*

# Brief for Appellant

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# United States
# Court of Appeals
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PAUL EDWARD SIMON

*Appellant*

*vs.*

UNITED STATES OF AMERICA

*Appellee*

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# Brief for Appellant

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## JURISDICTIONAL STATEMENT

This is an appeal from a Judgment of the District Court of Arizona entered on the 6th day of November, 1967 adjudging Appellant guilty as charged in the indictment filed February 11, 1967 on Counts II and II of said indictment and from the sentence imposed pursuant to the guilty verdicts returned by the jury in a trial which began on October 26, 1967.

The District Court had jurisdiction by virtue of an indictment returned by the Grand Jury charging violations of 21

U.S.C. 176 (a) and 18 U.S.C. 545. Upon the judgment, Appellant was sentenced to serve five (5) years on Count II and two (2) years on Count III of said indictment with the sentence on Count III to run concurrently with the sentence on Count II. The Notice of Appeal was filed on November 6, 1967.

This Court has jurisdiction to entertain this Appeal and to review the judgment in question under the provisions of Section 1291, Title 28, U.S. Code.

## STATEMENT OF THE CASE

The defendant was convicted under Count II for violating 21 U.S.C. Sec. 176 (a) in that he imported "approximately twenty-four (24) pounds one and one-fourth (1¼) ounces of bulk and refined marihuana and one-fourth (¼) ounce of Hashish, contrary to law." He was also convicted under Count III of violating 18 U.S.C. Sec. 545 in that he imported "approximately seventy-two (72) amphetamine and barbiturate pills and approximately twenty-seven (27) tablets of Percodan, contrary to law, that is to say, without such amphetamine and barbituate pills and Percodan tablets having been invoiced and presented to any Customs Officer for inspection." Except for the twenty-four (24) pounds of marihuana, the other narcotics were *never* shown to be within the defendant's possession. The facts may be summarized as follows: When the defendant and his wife came from Mexico to the United States through the Inspection Station at Nogales, Arizona, agents discovered twenty-four pounds of marihuana in packages taped to the springs under the rear seat of the automobile in which defendant was driving. The evidence reasonably supported that conclusion. However, the Government *never* proved that the refined marihuana (Hashish) as well as the amphetamine, barbiturate and Percodan pills came from the automobile. Let us examine the relatively short transcript of the trial.

The prosecution made a brief opening statement of which the following is the only interesting portion:

"Customs agent Dennis was summed there and his attention was called to the burn. He asked if the public health doctor had been summoned. He hadn't come down yet. At any rate, within a few minutes, Dr. Philip Benton, public health doctor stationed there, came down. He had been with another patient. He came down and looked at Mrs. Simon's leg and said it would not be too painful or too dangerous to have them proceed with the booking order, making out fingerprint cards and then she should be taken to a doctor. At that point, *on the table* — the car was being searched by Mr. Eccleston—on the table was found a bag and in the bag were bottles of what the government will show were Percodan tablets, amphetamine tablets, hasish or refined marihuana resins, various articles like that." (emphasis added)

The key exhibits introduced by the Government were Exhibit 51, a bag containing the refined marihuana, Hasish and Percodan tablets; Exhibit 52, a bag containing the amphetamine tablets, and No. 53 a bag containing the amphetamine tablets which had been in Exhibit No. 52.

The Government's first witness was William Zimmerman, a quarantine inspector, who was stationed in Nogales, Arizona, on May 26, 1967 when the alleged crime occurred. R.T. (19). He testified that the two defendants entered from Mexico into the United States at the Grand Gate R.T. (19) in a 1954 Chevrolet Sedan R.T. (20). Mr. Simon was driving and Mrs. Simon was lying on the back seat R.T. (20). Mr. Zimmerman said:

"A. While I was examining the certificates, he was telling me his wife had burned her leg in Guayman, and he wanted a doctor or directions to a clinic. And he appeared excitable, and I informed him that it was necessary to stop at the secondary area for an inspection and then he could proceed.

What happened then, if anything?

Answer: Well, he went down to the secondary area. It was about 50 yards from the main gate, and he stopped there for inspection.
Did you take a declaration from him?
Answer: No, I did not. R.T. (20-21).

Approximately thirty minutes later (24) Mr. Zimmerman went to the secondary area, and was asked:

"Q. Did you see their car?
"A. It was outside the secondary.
"Q. Was anyone around their car?
"A. When I came down there, Mr. Pelmans and Eccleston were removing some packages from the seat that they took out of the car.
"Q. Did you see anything else removed?
"A. Well, I saw a package later that they said had to come from the car. I didn't see it taken out of the car.
"Q. Where was that package when you saw it?
"A. They said it had come from inside, up under the dashboard. I don't know where, but up under.
"Q. Where was this package when you saw it?
"A. It was on the table. We have a big table right along side the car there. R.T. (22-23).

On cross-examination, Mr. Zimmerman was asked:

"Q. You mentioned that someone said that brown package came from under the dashboard. Do you remember who said it, which officer?
"A. Most likely was Mr. Eccleston, because I think Mr. Pelmans was inside with Mrs. Simon. R.T. (24).

That is it. The Hashish and all of the pills allegedly came from the paper bag which Mr. Zimmerman discussed. However, the Government never proved that the bag came from the Defendant's automobile. Mr. Zimmerman did not search the car and did not see anyone remove the package containing the tablets.

The next witness for the Government was Uhl Plemans, a customs inspector who was working at the secondary area when the defendants went there. R.T. (25).

Mr. Plemans and Mr. Eccleston inspected the car by tilting up the back seat where they saw some packages taped to the springs R. T. (27-28).

The packages became the Government's Exhibits 1 through 24. Mr. Plemans was asked:

> "Q. After you found Government's Exhibits 1 through 24 for identification under the rear seat, what did you do?
>
> "A. Then I took the suspects into the secondary building, placed them under arrest, and advised them as to their rights, Constitutional right. R.T. (30-31-40).

It is important to note that there was a break between the discovery of the twenty-four pounds of marihuana which comprised Exhibits 1 through 24 and the alleged discovery of the refined marihuana, Hashish and various tablets contained in Exhibits 51, 52 and 53.

On cross examination, Mr. Plemans admitted that he did not personally find the contents of Exhibit 51 and did not know where they came from because he was inside the building with the defendants. (46). Finally he admitted that Government's Exhibit 53 which was a plastic jar found in Government's Exhibit 52 (50) was discovered by someone else, and he did not know where it came from. R.T. (51).

The Cross-examination was as follows:

> "Q. Mr. Plemans, talking about the items you identified in 52—in 51, the plastic bags, all those little items, the cardboard carton, small jar, where did you find those?
>
> "A. I didn't find those personally, another inspector found those.

"Q. Do you know where they came from? Could you see where they came from?

"A. I did not, no. I was inside with the suspects.

"Q. You of your own knowledge, don't know where they came from?

"A. Not for sure, no. R.T. (45-46).

The next witness was Francis Baker, a customs inspector (52) who did not see Exhibits 1 through 24 actually removed from the car (53) and did not know whether Exhibits 51 contained the same substance as Exhibits 1 through 24. R.T. (54) (53).

The next witness was John Dennis. He testified to the control of exhibits 1 through 24 which he sent to the customs chemists in California (65) as well as Exhibits 51 and 53. (66). On Cross-examination he was asked:

"Q. Mr. Dennis, it is a fact you never saw Exhibit 51 come out of the automobile?

"A. That is true, sir.

"Q. You never saw item 52, or the brown paper which was a bag, come out of the automobile?

"A. That is true, sir.

"Q. You never saw item 53, the pills, the bag that had the pills in it, come out of the automobile?

A. That is correct. R.T. (67).

The next witness was Everett Turner, a customs investigator (73), who exculpated Mrs. Simon. R.T. (75).

The next witness was Dr. Philip Benton who treated Mrs. Simon's burned leg. R. T. (80-81).

The next witness was Karl Vogt, the inspector who received Exhibits 1 through 24 from Mr. Dennis (89), but did not know whether he received Exhibit 51 (91). Exhibits 27 through 50 were samples prepared from Exhibits 1 through 24 (92-95), and he delivered them to the laboratory in California (95). He also received Exhibit 53, the tablets, from Mr. Dennis and sent them to the laboratory. R.T. (97).

The next witness was Rosalyn Ereneta, the chemist who identified the contents of Exhibits 25 through 50 as Marihuana (98, 109). *Over objection,* she identified the contents of Exhibit 51 as hashish, marihuana and Percodan (111-113). They were admitted into evidence. *Over objection,* she identified the contents of Exhibit 53 as amphetamine pills (114). These were also admitted into evidence.

The State then dismissed as to Mrs. Simon and rested, whereupon Mr. Soble moved for acquittal, basis of insufficient evidence R.T. (117) and on the ground that 21 U.S.C. Sec. 176(a) is unconstitutional because it forces a person to incriminate himself contrary to the guarantee of the Fifth amendment R.T. (118). The motion was denied. Mr. Simon took the stand and, if believed, totally exculpated himself from any wrong-doing or knowledge of the narcotics in the automobile.

## SPECIFICATIONS OF ERROR RELIED UPON

### Specification of Error No. 1

That the trial court erred in failing to grant the motion for acquittal as to Count III of the indictment at the close of the government's case on account of the fact insufficient evidence was produced to support Count III.

### Specification of Error No. 2

That the trial court erred in failing to grant the motion for acquittal as to Count II of the indictment on the grounds that Count II of the indictment violates the constitutional privilege against self-incrimination as guaranteed under the Fifth Amendment.

## QUESTIONS PRESENTED

1. Whether the verdict of guilt on Count III is contrary to the weight of the evidence, since the only evidence offered by the Government was to prove that th narcotics were seen on a table next to the defendant's automobile.

2. Whether the privilege against self-incrimination properly invoked, is a complete defense to prosecutions under 21 U.S.C. Sec. 176 (a) and 18 U.S.C. Sec. 545.

## ARGUMENT

### Question 1 — Specification of Error

The defendant could not be found guilty of possessing amphetamine and Percodan tablets when the only evidence to support possession was that the tablets were found on a table next to the defendant's automobile approximately ten minutes after the automobile was searched.

Decisions regarding the definition of "possession" are unnecessary. We will all agree that constructive possession will support a conviction and constructive possession may be established by proving that the narcotics were found in an automobile driven by defendant. However, the government must prove beyond a reasonable doubt that the particular narcotics in question were actually in the defendant's automobile. The government has failed.
Analytically, the problem is whether an inference—reasonable in nature, has been established to tie together the automobile and the bag containing the tablets. We contend the inference is not reasonable because it is based entirely upon the heresay recollection of Officer Zimmerman. Someone told him the "package" had come from the automobile.

Officer Plemans' testimony is even weaker. He helped search the rear seat of the car. Then he and the defendants left. The bag containing the tablets later appeared on a table. Mr. Premans didn't know where the bag came from.

From this meagre testimony, not worthy to be called evidence, it would be pure speculation to conclude that the government "proved" the tablets had been "possessed" by the defendant. Therefore, the conviction under Count III must be reversed.

**Question 2 — Specification of error**

That the trial court erred in failing to grant the motion for acquittal as to Count II of the indictment on the grounds that Count II of the indictment violates the constituional privilege against self-incrimination as guaranteed under the Fifth Amendment.

21 U.S.C. Sec. 176(a) and 18 U.S.C. Sec. 545 are part of an inter-related statutory scheme designed to elicit information from persons in possession of narcotics, and the privilege against self-incrimination properly invoked, is a complete defense to prosecutions unders the afore-mentioned statutes.

In *Marchetti v. United States,* ......................, U.S. ......................, 88 S. Ct. ...................... 19 L.Ed. 2d 889, the defendant successfully challenged convictions for violating 26 U.S.C. 4411 and 4412 in that he failed to register and to pay an occuptional tax for engaging in the business of accepting wagers and for conspiring to evade payment of the tax. On appeal, he argued that the statutory obligation to register and to pay the occupational tax violated his constitutional privilege against self-incrimination. The United States Supreme Court agreed and reversed the convictions. The Court said that 26 U.S.C. Sec. 4411 and Sec. 4412 are part of an inter-related statutory system for taxing wagers. Those who wager must pay excise taxes and occupational taxes. They must register annually with the Director of Internal Revenue District and submit detailed forms and registration applications. They must post revenue stamps and preserve daily records of their wagering business and permit inspection of their books of account. Payment of the wagering taxes does not exempt any person from any penalty for wagering, and all of the information which they are required to provide is made available to Federal, State and Local prosecuting officers.

The Court said that the issue was not whether the United States could tax activities declared unlawful. Rather, the issue was whether the methods employed by Congress in the wagering tax

statutes were consistent with the privilege against self-incrimination guaranteed by the Fifth Amendment.

The Court reasoned that wagering is widely prohibited, therefore, the registration and occupational tax statutes created a real and appreciable hazard of self-incrimination because the information gathered pursuant to these provisions was made available for and used in prosecutions. The Court went on to reject the argument that the registration and occupational tax requirements did not infringe the constitutional privilege because they did not compel self-incrimination, but merely imposed on the gambler the initial choice of whether he should begin gambling in the first place. The Court said:

> "We find this reasoning no longer persuasive. The question is not whether petitioner holds a 'right' to violate state law, but whether having done so, he may be compelled to give evidence against himself. The constitutional privilege was intended to shield the guilty and imprudent as well as the innocent and foresighted; if such an inference of antecedent choice were alone enough to abrogate the privilege's protection, it would be excluded from the situations in which it has historically been guaranteed, and withheld from those who most require it." 19 L.Ed. 2d at p. 899.

The Court held that the privilege against self-incrimination provided a complete defense to both the substantive counts for failure to register and to pay the occupational tax and the count for conspiracy to evade payment of the tax.

Chief Justice Warren wrote a single dissent for the Marchetti case, its companion case of *Grosso v. United States,* ..................... U.S......................, 88 S Ct. ....................., 19 L.Ed. 2d 923, which held that the privilege against self-incrimination provided a complete defense to any prosecution under 20 U.S.C. Sec. 5841 or Sec. 5851 dealing with the failure to register a firearm and the possession of an unregistered firearm. Of particular interest in the

dissent of the Chief Justice is his conclusion that the majority decisions would invalidate a number of federal registration statutes including 26 U.S.C. Sec. 4722 concerning those who engage in narcotic drugs, and 26 U.S.C. Sec. 4753 concerning those who deal in marihuana, as well as the occupational tax provisions of Sec. 4721, 4702 (a) (2) (C) and Sec. 4751, all of which deal with narcotics. Chief Justice Warren also noted that 18 U.S.C. Sec. 1407 which requires narcotics addicts and violators to register whenever they enter or leave the country would also come under attack. Thus, it is clear that the majority opinions unquestionable control our particular case and prevent convictions under 18 U.S.C. Sec. 545 and 21 U.S.C. Sec. 176(a) when the privilege against self-incrimination is raised.

The decision in *Haynes v. United States,* Supra, is more closely related to our case because it dealt with a "possession" offense. The petitioner was charged with violating 26 U.S.C. Sec. 5851 for possessing an unregistered firearm as required by 26 U.S.C. Sec. 5841. He moved to dismiss on the ground that Sec. 5851 violated his privilege against self-incrimination, the motion was denied and he thereupon entered a plea of guilty.

On appeal, the United States Supreme Court pointed out that Sec. 5851 formed part of the National Firearms Act, an interrelated statutory system for the taxation of certain classes of firearms. Various provisions require the registration of firearms and the payment of occupational taxes. There are comprehensive provisions calculated to assure the collection of the tax and every person in possession of such a firearm was obliged to register. As in the case of 18 U.S.C. Sec. 545 and 21 U.S.C. Sec. 176(a) which defendant Simon allegedly violated, mere possession is sufficient to authorize conviction under 26 U.S.C. Sec. 5851 unless the possession is explained to the satisfaction of the jury.

The Court said that the issue was not whether Congress could regulate the manufacture, transfer or possession of firearms, nor whether Congress could tax unlawful activities. Rather, the issue

was whether enforcement of 26 U.S.C. Sec. 5851 was constitutionally permissible in view of the petitioner's assertion of the privilege against self-incrimination. The registration requirements were directed principally at those persons who obtained possession of a firearm without complying with the Act's other requirements and who would therefore be immediately threatened by criminal prosecutions under Sec. 5851 and Sec. 5861. On the other hand, registration of a firearm substantially increased the likelihood of prosecution under other provisions. Thus, the hazards of registration were real and appreciable as were the hazards of not registering. The conviction, though based upon the petitioner's guilty plea, was reversed.

In the instant case, the defendant was convicted of violating 21 U.S.C. Sec. 176(a) which prohibits the importation of marihuana "contrary to law" and prohibits the smuggling into the United States of marihuana which should have been invoiced. He was also convicted of violating 18 U.S.C. Sec. 545 prohibiting the smuggling or importation of any merchandise "contrary to law" or which should have been invoiced. In both cases, possession without satisfactory explanation will authorize a conviction. Both sections are intimately related to the entire regulatory scheme for the control of marihuana. 26 U.S.C. Sec. 4701 et seq contains 120 pages of legislation designed to obtain information concerning those who deal in marihuana and there is additional legislation contained in Title 21 U.S.C.

If the privilege against self-incrimination provides a complete defense to prosecution under the wagering and firearms statutes, it must also provide a complete defense to prosecution under the narcotics statutes. The privilege was properly invoked and the convictions must be reversed.

## CONCLUSION

It is respectfully urged and submitted that the conviction of Appellant be reversed, the sentence be vacated and that Appellant be acquitted.

Respectfully submitted.

Joseph H. Soble

JOSEPH H. SOBLE
Attorney for Appellant

I certify that, in connection with the preparation of this Brief, I have examined Rules 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that, in my opinion the foregoing Brief is in full compliance with those rules.

Joseph H. Soble

JOSEPH H. SOBLE
Attorney for Appellant

STATE OF ARIZONA }
County of Pima } ss.

JOSEPH H. SOBLE, being first duly sworn, deposes and says:

That I mailed to the United States Attorney, JO ANN DIAMOS, at Federal Building, Tucson, Arizona this 15 day of April, 1968, three (3) copies of the within Brief.

Joseph H. Soble

JOSEPH H. SOBLE

SUBSCRIBED AND SWORN to before me, this 15 day of April, 1968.

Notary Public

My Commission Expires:

12-9-68

Sarah E Miles

No. 22680

# United States Court of Appeals for the Ninth Circuit

JOHN C. WAGNER,
PETER C. UNGER,
ROBERT L. WAGNER,

*Appellants,*

v.

UNITED STATES OF AMERICA,

*Appellee*

*On Appeal from the United States District Court for the District of Oregon*

## APPENDIX TO BRIEF OF APPELLEE



SIDNEY I. LEZAK
*United States Attorney*
*District of Oregon*

WILLIAM B. BORGESON
*Assistant United States Attorney*

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No. 22680

# United States Court of Appeals

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JOHN C. WAGNER,
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v.

UNITED STATES OF AMERICA,

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*On Appeal from the United States District Court for the District of Oregon*

## APPENDIX TO BRIEF OF APPELLEE

## INTRODUCTION

This appendix consists of (1) the statutes involved, (2) affidavit of Tom P. Price dated January 13, 1969, and (3) affidavit of Alice Stordahl Russell dated January 8, 1969, with attachments of memoranda of interviews conducted by FBI agents McCloskey and Neves.

While these affidavits were not a part of the trial record in this matter, they are being submitted for the benefit of the Court in considering the allegations of error of the defendants based upon the alleged failure of FBI agents McCloskey and Neves to adequately warn defendant Peter Unger of his constitutional rights prior to interviewing him. In addition, the affidavit of Tom P. Price is hereby submitted for the Court's consideration on the issue raised by defendant Peter Unger that he had incompetent and ineffective court-appointed counsel.

## CONSPIRACY

18 U.S.C. 371

"If two or more persons conspire either to commit any offense against the United States, or to defraud the United States, or any agency thereof in any manner or for any purpose, and one or more of such persons do any act to effect the object of the conspiracy, each shall be fined not more than $10,000 or imprisoned not more than five years, or both.

"If, however, the offense, the commission of which is the object of the conspiracy, is a misdemeanor only, the punishment for such conspiracy shall not exceed the maximum punishment provided for such misdemeanor June 25, 1948, c. 645, 62 Stat. 701."

## FRAUDULENT INTERSTATE TRANSACTIONS

(Fraud in Sale of Securities)
15 U.S.C. 77q

"(a) It shall be unlawful for any person in the offer or sale of any securities by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails, directly or indirectly —

(1) to employ any device, scheme, or artifice to defraud or

(2) to obtain money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or

(3) to engage in any transaction, practice, or course of business which operates or would operate as a fraud or deceit upon the purchaser.

(b) It shall be unlawful for any person, by the use of any means or instruments of transportation or communication in interstate commerce or by the use of the mails, to publish, give publicity to, or circulate any notice, circular, advertisement, newspaper, article, letter, investment service, or communication which, though not purporting to offer a security for sale, describes such security for a consideration received or to be received, directly or indirectly, from an issuer, underwriter, or dealer, without fully disclosing the receipt, whether past or prospective, of such consideration and the amount thereof.

(c) The exemptions provided in section 77c of this title shall not apply to the provisions of this section. May 27, 1933, c. 38, Title I, § 17, 48 Stat. 84; Aug. 10, 1954, c. 667, Title I, § 10, 68 Stat. 686."

## FRAUDS AND SWINDLES

(Using the Mails to Defraud)

18 U.S.C. 1341

"Whoever, having devised or intending to devise any scheme or artifice to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises, or to sell, dispose of, loan, exchange, alter, give away, distribute, supply, or furnish or procure for unlawful use any counterfeit or spurious coin, obligation, security, or other article, or anything represented to be or intimated or held out to be such counterfeit or spurious article, for the purpose of executing such scheme or artifice or attempting so to do, places in any post office or authorized depository for mail matter, any matter or thing whatever to be sent or delivered by the Post Office Department, or takes or receives therefrom, any such matter or thing, or knowingly causes to be delivered by mail according to the direction thereon, or at the place at which it is directed to be delivered by the person to whom it is addressed, any such matter or thing, shall be fined not more than $1,000 or imprisoned not more than five years, or both. June 25, 1948, c. 645, 62 Stat. 763; May 24, 1949, c. 139, § 34, 63 Stat. 94."

## STATEMENTS OR ENTRIES GENERALLY

(False Statements)

18 U.S.C. 1001

"Whoever, in any matter within the jurisdiction of any department or agency of the United States knowingly and willfully falsifies, conceals or covers up by any trick, scheme, or device a material fact or makes any false, fictitious or fraudulent statements or representations, or makes or uses any false writing or document knowing the same to contain any false, fictitious or fraudulent statement or entry shall be fined not more than $10,000, or imprisoned not more than five years, or both. June 25, 1948, c. 645, 62 Stat. 749."

## TRANSPORTATION OF STOLEN GOODS, SECURITIES, MONEYS, FRAUDULENT STATE TAX STAMPS, OR ARTICLES USED IN COUNTERFEITING

(Interstate Transportation of Converted Property)

18 U.S.C. 2314

"Whoever transports in interstate or foreign commerce any goods, wares, merchandise, securities or money, of the value of $5,000 or more, knowing the same to have been stolen, converted or taken by fraud; or

Whoever, having devised or intending to devise any scheme or artifice to defraud, or for obtaining money or property by means of false or fraudulent pretenses, representations, or promises, transports or causes to be transported, or induces any person to travel in, or to be

transported in interstate commerce in the execution or concealment of a scheme or artifice to defraud that person of money or property having a value of $5,000 or more; or

Whoever, with unlawful or fraudulent intent, transports in interstate or foreign commerce any falsely made, forged, altered, or counterfeited securities or tax stamps, knowing the same to have been falsely made, forged, altered, or counterfeited; or

Whoever, with unlawful or fraudulent intent, transports in interstate or foreign commerce any traveler's check bearing a forged countersignature; or

Whoever, with unlawful or fraudulent intent, transports in interstate or foreign commerce, any tool, implement, or thing used or fitted to be used in falsely making, forging, altering, or counterfeiting any security or tax stamps, or any part thereof —

Shall be fined not more than $10,000 or imprisoned not more than ten years, or both.

"This section shall not apply to any falsely made, forged, altered, counterfeited or spurious representation of an obligation or other security of the United States or of an obligation, bond, certificate, security, treasury note, bill, promise to pay or bank note issued by any foreign government or by a bank or corporation of any foreign country. As amended July 9, 1956, c. 519, 70 Stat. 507; October 4, 1961, Pub. L. 87 -371, § 2, 75 Stat. 802; Sept. 28, 1968, Pub. L. 90-535, 82 Stat. 885."

IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

| | |
|---|---|
| JOHN C. WAGNER,<br>PETER C. UNGER,<br>ROBERT L. WAGNER,<br>Appellants,<br>v.<br>UNITED STATES OF AMERICA,<br>Appellee. | NO. 22680<br><br>AFFIDAVIT OF TOM P. PRICE |

STATE OF OREGON
COUNTY OF MULTNOMAH } ss.

I, TOM P. PRICE, being first duly sworn, depose and say:

That I make this affidavit to refute charges that I was incompetent in my representation of appellant Peter C. Unger during the trial of the criminal case of the United States v. John C. Wagner, et al.

I was admitted to the Oregon State Bar in 1956 and have been a member in good standing since that time. That during this period I have defended many defendants in criminal cases, as well as handling general litigation.

That during the period from 1962-1965 I was associated with the District Attorney's Office as Senior Deputy in Multnomah County, Portland, Oregon, prosecuting before juries in excess of 130 major felony cases.

That in the instant case I was appointed to defend Peter C. Unger by The Honorable Gus J. Solomon, Chief Judge of the District Court of Oregon.

/s/ Tom P. Price

Subscribed and sworn to before me this 13th day of January, 1969.

/s/ F. Jewel McKinney
Notary Public for Oregon
My Commission Expires:
2/28/69

IN THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

| | |
|---|---|
| JOHN C. WAGNER,<br>PETER C. UNGER,<br>ROBERT L. WAGNER,<br>Appellants,<br>v.<br>UNITED STATES OF AMERICA,<br>Appellee. | NO. 22680<br><br>AFFIDAVIT |

STATE OF WASHINGTON
COUNTY OF KING } ss.

I, ALICE STORDAHL RUSSELL, being first duly sworn, depose and say:

During the trial of the above matter I was employed as a secretary assisting the United States Attorney in assembling and listing of Plaintiff's exhibits and furnishing copies of said exhibits to counsel for all defendants.

On July 27, 1967, at the direction of Mr. Nornam Sepenuk, Assistant United States Attorney, I lodged with Mr. Donal D. Sullivan, Clerk of the United States District Court, at Portland, Oregon, a

letter together with three memoranda of interview, copies of which letter and memoranda are attached hereto.

/s/Alice Stordahl Russell

Subscribed and sworn to before me this 8th day of January, 1969.

/s/ Walter F. Pitts

Notary Public in and for
the State of Washington,
residing at Olympia.

My Commission Expires:
November 20, 1972

*United States Department of Justice*
UNITED STATES ATTORNEY
UNITED STATES COURTHOUSE
DISTRICT OF OREGON

Portland, Oregon 97207

July 27, 1967

Mr. Donald D. Sullivan
United States District Court Clerk
United States Courthouse
Portland, Oregon

Re: U. S. v. Golden Rule Realty & Development, Inc., et al. CR 66-265, USDC Oregon

Dear Mr. Sullivan:

We are lodging today with your office, for purposes of the record in this case, certain additional memoranda of interview pertaining to the following named individuals:

William F. Kelly
Charles Peter Unger, May 20, 1966
Charles Peter Unger, June 2, 1966
Peter C. Unger, August 30, 1966

The above list-supplements the material previously filed.

Very truly yours,

SIDNEY I. LEZAK
United States Attorney
NORMAN SEPENUK
Assistant U. S. Attorney

Encls.

cc: Judge Robert C. Belloni
Lewis B. Hampton, Esq.
Arthur Lewis Whinston, Esq.
Peter B. Higgins, Esq.
Tom Price, Esq.
Leigh D. Stephenson, Esq.
James J. Damis, Esq.

MEMORANDUM OF INTERVIEW

| | |
|---|---|
| Person Interviewed: | William F. Kelly |
| Interviewed By: | L. E. Morgan, Investigator, SEC |
| Place: | U. S. Attorney's Office<br>Portland, Oregon |
| Date: | July 26, 1967 |
| Re: | GRR Development, Inc. |

The following information was submitted by William F. King:

He is now desk clerk at the Flamingo Motel, Portland, Oregon.

In March 1966 Kelly and his wife were interviewed and hired by Gordon Z. Jongeward at the Hollywood Towne House to manage the 6th Ave. Motel, Portland, Oregon.

The Kellys moved into an unfurnished apartment at the 6th Ave. Motel on April 1, 1966 and started man-

aging the motel two days later, after the former managers moved out. Kelly gave the daily receipts to Jongeward, who signed the Daily record books. Those receipts totalled approximately $1,000 for one week. Then a Receiver was appointed to operate the 6th Ave. Motel.

*FEDERAL BUREAU OF INVESTIGATION*

Dated May 20, 1966

CHARLES PETER UNGER, 3607 Lyons Drive, Apartment "D", telephone number 735-0846, voluntarily appeared at the Las Vegas FBI Office on May 17, 1966. He was advised by SA (A) JAMES E. MC CLOSKEY that he need furnish no information before consulting with an attorney of his own choice, that any information he did furnish could be used against him in a court of law, and that any information he did furnish is considered free and voluntary on his part. He advised he did nothing wrong and he had no reason to consult with an attorney. He advised his mind is hazy on some aspects of this matter but he would answer any questions put to him to the best of his ability. He advised as follows:

His true name is CHARLES PETER UNGER but he has used the name of PETER CHARLES UNGER since about 1955 or 1956. He felt before discussing the Aloha Estates matter he should begin by explaining his beginning association with JOHN C. WAGNER. He is a licensed real estate broker in California but has generally worked as an independent agent. About four or five years ago he was in the Clem Doyle Realty Company office, Costa Mesa, Calfornia when he first met JOHN C. WAGNER. He had some property for sale and CLEM DOYLE brought WAGNER to the office as a possible buyer. He did sell the property, location not recalled to WAGNER. He was not certain but he be-

lieved WAGNER to be a real estate broker on the side. He did know that JOHN C. WAGNER at that time was building play houses for children and had rental business space in the V-Block Company, Costa Mesa, California.

After that first association, he and WAGNER became friendly and thereafter jointly bought and sold many pieces of property together near or in Lake Elsinore which is near Riverside, California. He could not recall each specific piece of property even if he saw the particular legal descriptions and/or deeds involved in those transactions. For a period of two or three years, they worked together but eventually, about a year and a half ago, they split up and liquidated what little property they had. He had invested nothing thus he lost nothing but his time and efforts. He does not believe he earned $2,000.00 over this period of time.

After dissolving their working arrangement he went to Arroyo Grande, near San Luis, Obispo, California and worked on his own. He cannot recall specific or even near dates in this matter. WAGNER did keep in touch with him and the two corresponded frequently.

While at the Clock Realty Company at Santa Marie, California he met a person named COLEMAN CHRISTENSEN. He later contacted CHRISTENSEN, at CHRISTENSEN'S office at Arroyo Grande, California. They did not enter into any business arrangements.

Towards the later part of 1965, he was told somehow by JOHN C. WAGNER that WAGNER had purchased some lots in Hawaii called Aloha Estates. He does not know how WAGNER obtained the property and was never told this by any party with whom he was later associated in this affair. The property was purchased in the name of GRR Development which was based in San Francisco, California. He recalls the name of GRR actually being Golden Rule Realty and Development Company. The company was owned by CHRISTENSEN, a GORDON JONGEWARD and one of their wives. He did not know which wife. He knew the company was situated in San Francisco and had as its Chairman of the Board his friend, JOHN C. WAGNER. In any event JOHN C. WAGNER got in touch with him and said he had a deal for him, UNGER. WAGNER said GRR would give him one-half of the profits in any subsequent sales of properties on Aloha Estates. He was to go to Hawaii, talk with the trust deed holders, and get extensions on the deeds as held by the stockholders. What WAGNER failed to tell him and what eventually caused him to pull out of the entire deal was the fact the overall note as held by Marine Finance Company was two months past due by the time he arrived on the scene in Hawaii. GRR was late on its payments to Marine Finance and that mortgage company was threatening foreclosure after he arrived there.

He accepted WAGNER'S deal in good faith and about Christmas, 1965 he travelled by airplane to Hawaii with his wife and two

children. He was given his plane tickets by GRR. After about a month of meeting with stockholders, principals of Marine Finance and others he realized he was involved in a hopeless mess. He sent a telegram to JOHN WAGNER telling WAGNER he was through. He desired to clarify one matter at this point. In thinking back it was JONGEWARD who purchased a plane ticket for him with JONGEWARD'S credit card.

During the period of time he was in Hawaii he contacted and dealt with ROBERT WAGNER, no relation to JOHN C. WAGNER. ROBERT WAGNER was a former president of Aloha Development or a related corporation and he was also the resident manager of Aloha Development. After he learned it was useless to attempt to make a profit in this matter he and ROBERT WAGNER started drawing funds of GRR paid by investors as living expenses.

Actually GRR used ROBERT WAGNER'S post office box in Mt. View, Hawaii and WAGNER would forward the mail to GRR in San Francisco. After he and ROBERT WAGNER became aware they could not make a profit of the Aloha properties and meet the finance company payments they felt they should at least be paid for their services. WAGNER went to the Post Office and worked out some arrangement so that mail to GRR would be held for him. If the mail contained payments from investors to GRR, WAGNER would take the money and deposit it to a local bank opened in both their names. This checking account was then used by both

ROBERT WAGNER and himself for living expenses. He estimated he received from $1,500.00 to $2,000.00 for his efforts in this matter, and from that account. After learning of this bank account in the name of Aloha Development but with the signatories being himself and ROBERT WAGNER, only, JOHN WAGNER became irritated but he told JOHN WAGNER there was no other way as they had to live.

As to other specific information he could advise as follows:

About the time he and JOHN WAGNER split their business arrangement near Riverside, California and liquidated their holdings at a loss WAGNER said he had a deal where he could use the trust deeds on properties at Lake Elsinore to raise cash. The trust deeds he held were in his and his wife's name and were worthless. The trust deeds were valid in themselves as they were secured by properties but they all had first mortgages attached to them in addition to mechanic liens. He and his wife signed the deeds over to WAGNER but since they were not recorded they were worthless.

He does not know if or when they might have been recorded by JOHN WAGNER or anyone else. He did not know these same deeds were used by GRR as security on properties in Aloha Estates.

He did know a MERLEY HOLLAND, Notary Public, but the date of November 30, 1964 meant nothing to him. This could have

been when WAGNER dated the deeds a year later if he so desired. He did not sign over any deeds to WAGNER at that time.

As to the single deed of trust covering the lots as executed by JOHN WAGNER he could not recall any details concerning that deed. He does recall only that CHRISTENSEN and JONGEWARD signed a blank deed covering the entire Aloha Estates and in return JOHN WAGNER and himself gave them or GRR some Lake Elsinore properties in return which also were worthless. The properties were also covered with mortgage loans and liens of all types. He could not recall details of that transaction.

CHRISTENSEN and JOHN WAGNER did sign papers making him President of Aloha Development and gave him the corporate seals, etc. He did not recall where this transfer took place but he was not at Portland, Oregon and he executed no such arrangement then. He did sign a few correspondence letters listing himself as President of the development but he never consumated any land transactions using that title. He did find using that title would assist him when he first went to Hawaii. In fact, the officials of Marine Finance talked with him only because of his position. He never showed anyone at Marine Finance a deed confirming the fact he purchased all the Aloha properties from GRR since as stated the deed property description was in blank.

He did recall talking to one investor, a Mr. THOMAS at Hawaii, at which time he indicated that the deeds of trust at Lake El-

sinore were worthless. He recalled telling THOMAS the deeds were good when he signed them but when he learned they had been used by JOHN WAGNER on the Aloha properties they were worthless as they were never recorded to his knowledge. He does not recall how he learned his own deeds as signed over to JOHN WAGNER were used in Hawaii but one investor showed him such a deed and he realized there must be some swindle involved in this entire deal.

He could not recall a specific piece of property described as Lot 9, Block 12, of Elsinore Sub-Division which indicated he made $10.00 monthly payments to JOHN WAGNER from December, 1964 to July, 1965. He does know he never made any such payments to WAGNER or anyone else on any properties he held at Elsinore simply since he had no money. He feels WAGNER could logically make that statement as stating the payments were monies owed UNGER and applied by WAGNER to UNGER'S payments. However, he would never have permitted WAGNER to make these payments in his name or with monies due him since the land titles were worthless in view of the mortgages, liens etc.

Before he left Hawaii he turned over to ROBERT WAGNER all the corporate seals, etc. as he had enough of the company. He feels he was taken in this matter. He could not explain how after arriving in the United States about two months ago he continued to do business with the same people of GRR including JOHN WAGNER. He did state he communicates with GRR at the present time but has handled no properties for them in

Nevada. He does list himself as sales manager for GRR in Nevada for credit reference purposes and he knows that if credit inquiries are sent to GRR in San Francisco he would receive favorable references. There is no quarrel between himself and JOHN WAGNER. He just feels somehow he became involved in a bad situation and possibly was used by these people.

He did not desire to furnish a signed statement at this time since he could not recall full details as to dates and places in this matter.

He advised he would be residing in Las Vegas on a permanent basis if he could establish himself in the realty business. At the present time he is self-employed but has handled no real estate transactions to date.

The following description was obtained through observation and interview:

| | |
|---|---|
| Name | CHARLES PETER UNGER, aka Peter Charles Unger |
| Sex | Male |
| Race | White |
| Age | 33 |
| Date of birth | February 7, 1933 |
| Place of birth | Santa Monica, California |
| Height | 6' |
| Weight | 170 pounds |
| Hair | Dark brown |
| Eyes | Hazel |
| Build | Slender |
| Complexion | Dark or deep sun tanned and pock-marked |

| | |
|---|---|
| Social Security # | 552-38-9635 |
| Military Service | U.S. Navy from 2/8/56 to 11/28/61 |
| U.S. Navy Serial # | 481 44 83 |
| Marital status | Married |
| Relatives | ROSE UNGER, wife and two minor children, 3607 Lyons Drive, Apartment "D", Las Vegas, Nevada |
| Occupation | Real Estate Broker |
| Employment | Currently self-employed |
| Arrest Record | Admits none |

Date June 2, 1966

CHARLES PETER UNGER, residing at 1101 Clark Street, Apartment 6, Las Vegas, Nevada, as of June 1, 1966, voluntarily reappeared at the Las Vegas FBI Office on June 1, 1966. He was again advised by SA (A) JAMES E. MC CLOSKEY that he need furnish no information of any kind before consulting with an attorney of his own choice, that any information he did furnish could be used against him in a court of law, and that any information he did furnish is considered free and voluntary on his part. He advised he wished to continue to cooperate in this matter, that he did not need an attorney, and that he would do his best to furnish any additional information. After having been placed under oath, he advised as follows:

Since coming to Las Vegas, Nevada, about

two months ago, he has acted as an independent realtor with a California real estate license. He is in contact with JOHN C. WAGNER of GRR Development on a regular basis since they have been friendly for years. Since arriving in Las Vegas, he has been engaged in two separate and distinct transactions with JOHN WAGNER, but he has limited knowledge of each transaction. About three weeks ago, he brought together JOHN WAGNER and MARY BARDOS, Bardos Realty Company, Las Vegas. BARDOS had a client, LEE POTTER, who was a principal owner of a Las Vegas shopping center, location not known to him, in Las Vegas. POTTER also owned a mortgage company, name not recalled, located off East Charleston Boulevard and this was included in the overall transactions. Both he and BARDOS were to get commissions, but to date he has received nothing. He knows of no details of the sale except that GRR Development was buying both the shopping center and the mortgage company, offering GRR corporate notes as security.

About a week ago he paid to JOHN WAGNER a total of $1,850.00 in the form of a cashier's check from the Bank of Las Vegas, South Fourth Street Branch, Las Vegas, for an apartment house named Champion Oaks, 2000 Curby Way, Roseville, California. The money was his own and money he saved, although at present he is almost penniless. He promised to pay an additional $700.00 for the property. WAGNER was selling him property as agent for GRR that previously had purchased the property from a RUTH CHESNEY and her husband, name not recalled. To

his knowledge, JOHN WAGNER gave the CHESNEYs a GRR corporate note for the property. He knows no further details as to the former owners or their agreement with GRR.

He did learn from JOHN WAGNER that GRR was buying a second trust deed held on the Tod Motor Hotel, Las Vegas, from a LLOYD MORGAN. The transaction was being handled through the Bardos Realty Company and to his knowledge it was put in the hands of an escrow company, name not recalled. JOHN WAGNER never furnished him with details of this transaction and since he was not personally involved he made no independent inquiries. JOHN WAGNER currently operates through the Potter Mortgage Company, Las Vegas.

As to past dealings with JOHN WAGNER and principals of GRR, he could advise as follows:

He could not recall names and dates in most of his transactions, but they were all legitimate business deals at the time. Since he and WAGNER had engaged in many property and title transfers in the past, he saw no reason when in November, 1963, and thereafter he should not help WAGNER. He did not know that many pieces of property in Lake Elsinore, California, were of value during that period he and/or WAGNER held them. He further knew that JOHN WAGNER first purchased several lots in Block 12, Elsinore Subdivision, Riverside County, California, from a JAMES O. RUPARD. No money

exchanged hands except possibly escrow costs, but WAGNER did give RUPARD a $25,000.00 note on his home located on Prince Albert Street, Riverside, California. At the time, WAGNER was having financial difficulties and being afraid of liens attached to the property he deeded the property to him, UNGER, and his wife, ROSE UNGER. This was strictly a gentleman's agreement and he accepted the titles accordingly. After that the deeds were transferred back and forth several times between the UNGERs and the WAGNERs, all at WAGNER's request. He did not question WAGNER since he assumed WAGNER needed time to straighten out his affairs.

He was well aware but had no information JOHN WAGNER was aware of the foreclosures on those pieces of property and their resumption to and by RUPARD. The date of April 23, 1965, appeared accurate to him as to the date of the foreclosings, but as stated he did not know if WAGNER knew of those foreclosings. He could not recall the actual sequence of title transfers, but he wished to stress that at the time of his manipulations of transfers of the Elsinore properties, they were good and legitimate pieces of property. Some of the properties had liens attached, but other pieces of land were free and clear. He derived no real profit from these title transfers, but this is his business, the business of the fast transaction. As a realtor, he deals in large finances rather than single home transactions. His wife, ROSE UNGER, had no knowledge of any real estate matters in which she was listed as transfering or accepting titles to properties. She just did as he re-

quested and as stated he was only going through these maneuvers for an old friend.

He also wished to make one point clear. He at no time in the 1963 through early 1965 period heard of GRR and it was only in the latter part of 1965 when he accepted the offer to go to Honolulu for GRR that he knew of such a corporation. All his early dealings with JOHN WAGNER on the Elsinore properties had absolutely nothing to do with GRR Development or Aloha Estates. It was only after he had been in Honolulu shortly after Christmas, 1965, representing GRR, that he learned from stockholders there that GRR Investment, through JOHN WAGNER, had given as security some of his own former personal holdings in Elsinore, California. This was when he realized how worthless the Elsinore properties were as they pertained to GRR since the titles he saw while in Honolulu had previously reverted back to JAMES RUPARD. In this same matter, he does not know why JOHN WAGNER held these Elsinore properties until a year later before having them recorded. He could only speculate knowing WAGNER that he held the title transfers in his briefcase and forgot about them for a long period of time. In any event, he was not involved in the giving of Elsinore titles to Aloha Estates investors at any time, and cannot account for JOHN WAGNER's actions. Neither he nor his wife are related in any way to JOHN WAGNER or his wife.

On or about July 6, 1965, date not certain, he purchased a California company named Lou Peg Corporation from a Mr. REDON, first name not recalled. The transaction was

handled through DOLF BENNETT, attorney in the law firm of DOLF and LEONARD BENNETT, located either in Canoga Park or Sherman Oaks, California. Through the attorney he gave as security two trust deeds on Lake Elsinore properties he personally owned, and which had no connection with GRR or JOHN WAGNER. No monies exchanged hands in this sale of the Lou Peg Corporation. His purpose in obtaining the corporation concerned a liquor license he wanted to obtain. He could not recall full details without his business files, but Lou Peg held an option in Santa Monica Canyon, California, to pick up the license, which he later obtained. An additional incentive to him in this purchase was the option to purchase additional land in the same area. He still holds title to the corporation but it has and never had any real assets of substance since he obtained it. He would estimate the entire net worth of Lou Peg Corporation was not more than $2,000.00, which he could prove if required.

Since he knows JOHN WAGNER and discussed his purchase of Lou Peg, he feels WAGNER knew the corporation had very little monitary value. He travels quite frequently and in early December, 1965, which was shortly before he left for Honolulu to handle the Aloha Estates matter for GRR, he met with JOHN WAGNER at Scottsdale, Arizona. He does not recall what caused them to meet at that location, but he presumed it was at WAGNER's request. WAGNER briefly told him of the Hollywood Towne House at Portland, Oregon, and that he, for GRR, was negotiating its sale. WAGNER stated something

to the effect he needed an escrow to show to possible purchasers. WAGNER stated he needed time to generate more funds as he was being pressed. He furnished no actual details but this was the manner in which they both operated and generally independent of each other. WAGNER did state a note was due at the bank or a mortgage company on the Hollywood Towne House matter, and he wanted an escrow to show to someone. Since he and JOHN WAGNER have assisted each other in the past in this manner of transferring titles to generate funds, he saw no reason why he should not go along with WAGNER.

WAGNER drew up an escrow, dated December 2, 1965, indicating Lou Peg was receiving all the shares of the Hollywood Towne House from GRR Development. WAGNER never told him and he never asked what WAGNER was going to do with the escrow. They did go to the American Title and Trust Company, Scottsdale, and requested an escrow agreement be handled by that office. He could not recall who handled the transaction at the escrow company, but it was a woman. He and WAGNER were told to return later after the escrow agreement had been typed. WAGNER appeared in a hurry to have this escrow handled and he believed it was the same date they both returned to the escrow company where he signed the form Lou Peg Corporation by PETER C. UNGER, President. He did not recall what happened to the escrow after that but he does know the document was worthless in itself since no action was ever taken on the escrow. WAGNER later

told him the deal to sell the Hollywood Towne House fell through and naturally the escrow was worthless. In connection with the escrow, he never received anything for signing this form, no shares of stock changed hand, and a promissory note in no amount, let alone $750,000.00, was ever executed or changed hands. The entire escrow was worthless except that WAGNER needed it at the time, and if his sale could have been consumated possibly the escrow could have some value.

He was shown by SA (A) JAMES E. MCCLOSKEY a copy of escrow instructions, dated December 2, 1965, escrow number 30,313, concerning the Lou Peg Corporation and Hollywood Towne House. The document was signed Lou Peg Corporation, a California corporation, by PETER C. UNGER. He advised the first signature of PETER C. UNGER was his own, but the second signature of PETER C. UNGER appearing below the word President was not his. The document was indicated assigned by GORDON JONGEWARD for GRR Development. He does not know how JONGEWARD's signature appeared on this form unless after he signed the escrow he gave it to WAGNER who somehow held it until JONGEWARD signed it.

He was shown by SA (A)MC CLOSKEY a copy of a form entitled Escrow Instructions American Title and Trust Company, dated December 2, 1965, listing GRR Development as seller and Lou Peg Corporation as buyer. Page two of the instructions indicated the signature of PETER C. UNGER, President, Lou Peg Corporation. He advised the signature appearing on that document was his own,

but again he does not know and did not know how JOHN WAGNER intended to use the documents. The pages attached to the escrow instruction list properties he, UNGER, held at the time, but which had no connection with Lou Peg Corporation.

He does recall that WAGNER had told him the Hollywood Towne House did have a Federal Housing Administration mortgage but he knew no details of this mortgage. He is not aware how much money GRR obtained as rental income from the Hollywood Towne House. He never received any money or anything of value from JOHN WAGNER, any official of GRR, or anyone else either for his having signed the escrow papers or for having assisted in this transaction. He never received any monies from WAGNER or anyone else in connection with the Hollywood Towne House. He is not and never was an employee or official of GRR except for the short time in 1966 when he attempted to handle the Aloha Estates matter for GRR. He is an independent operator and realtor, but when he sees a deal GRR might be interested in following, he does advise JOHN WAGNER accordingly.

He could recall no other real estate transactions wherein he was involved with GRR in any way. He does recall having heard that GRR had purchased a piece of property known as Ruby View Trailer Estates, Elko, Nevada, from a MARK NORDA or CORDA, who resides somewhere in the California San Fernando Valley. He knew the so-called estates was only several pieces of land in the

open desert, and contained no actual development or trailers. He did not know if GRR sold any of the lots or what the status of the estates are at the present time.

He would cooperate in this investigation in every manner he can. He feels he personally did nothing wrong in any of his transactions with GRR. He did not know how long he would remain in the Las Vegas area since he has no money at the present and his future depends on real estate transactions. He would furnish a signed statement if it became necessary at a later date although he has a poor memory for names and dates and could furnish very little in the way of positive information.

*FEDERAL BUREAU OF INVESTIGATION*

Dated August 30, 1966

PETER C. UNGER, Realtor, when interviewed at his residence Apt. 1, 2004 South Cirby Drive, furnished the following signed waiver:

"YOUR RIGHTS

Place: Roseville, Calif.
Date: 8/29/66
Time: 2:05 P.M.

"Before we ask you any questions, you must understand your rights. You have the right to remain silent. Anything you say can be used against you in court. You have the right

to talk to a lawyer for advice before we ask you any questions, and to have him with you during questioning. You have this right to the advice and presence of a lawyer even if you cannot afford to hire one. We have no way of giving you a lawyer, but one will be appointed for you, if you wish, if and when you go to court. If you wish to answer questions now without a lawyer present, you have the right to stop answering questions at any time. You also have the right to stop answering at any time until you talk to a lawyer.

"WAIVER

"I have read the statement of my rights shown above. I understand what my rights are. I am willing to answer questions and make a statement. I do not want a lawyer. I understand and know what I am doing. No promises or threats have been made to me and no pressure of any kind has been used against me.

Signed PETER C. UNGER

Witness: James R. Neves, Spl Agt. F.B.I.

Time: 2:06 P.M., 8/29/66"

On 8/29/66 at Roseville, California. File # 46-9049. SA JAMES R. NEVES / ER Date dictated 8/29/66.

After execution of the waiver, UNGER was duly sworn and placed under oath.

After viewing a copy of a Note Secured by Deed of Trust, dated January 15, 1965, in the amount of $7,500 to JOHN C. WAGNER, and signed PETER C. UNGER and ROSA J. UNGER, and the assignment of Trust Deed by JOHN C. WAGNER to GEORGE E. and DOROTHY BARKDOLL dated April 19, 1965, UNGER stated that he executed this note, but that the details of the transaction are not recalled by him at this time, nor would he have any written record of the transaction. UNGER stated that although he has no specific recollection of the event, undoubtedly this note, secured by a deed of trust to Parcel 6, Township 7, Lake Elsinore Estates, Riverside, California, which parcel he still believes he owns but is under litigation, was executed to cover the balance of the purchase price of property from WAGNER, or to cover an indebtedness he owed WAGNER for some other transaction. He stated that while he does not recall the details of the transaction, he feels certain that he received a consideration of some type at the time of execution.

He stated that he believes he still owns about 300 lots at Lake Elsinore Estates, although some, if not all, may have been lost through foreclosure, but that he has never taken the time to determine if he still owns this property at Lake Elsinore.

UNGER advised that he entered into an informal gentlemen's agreement with WAGNER relative to the sale and exchange of real estate and that he would estimate that he had some fifty odd transactions with WAGNER

from which he would receive deeds of trust for various property or other remuneration from WAGNER as commission, or he would assign deeds of trust, or issue promissory notes to WAGNER, depending upon the circumstances of the transaction. He stated that he cannot recall the details of these transactions, and that he has no written record of them as they were all verbal agreements which they worked out between themselves. He stated that he did not keep any written record as to his transactions with WAGNER and that they did not go through escrow whenever one assigned a deed of trust to the other, since they did not believe that such was necessary. He advised, however, that the Recorder's Office should have a record of the property which he secured from WAGNER.

UNGER stated that at the time of the execution of the note on January 15, 1965, he considered it to be a valid instrument and that he fully intended to comply with the terms of the note. He stated that he has no recollection that he ever made any payments on this note, but that it is possible that this note could have been satisfied by some other indebtedness which WAGNER may have owed him subsequently, although he has no specific recollection that such was the case. He stated that in the many promissory notes and assigned deeds of trust which he executed to WAGNER, he was assured by WAGNER that as long as WAGNER held the notes he would never foreclose on UNGER if he became delinquent, and that they would find some method to work out their financial status. He stated that

he possesses no information, nor has he ever made a statement to the effect, that at the time of the execution of this note, or any other note, he received no consideration for the note, that the note was valueless or not a bona fide instrument, or that WAGNER, at the time of the execution, knew the note was meaningless and did not expect payment. He stated that such was not true and only a complete fool would make such a statement.

He stated that at no time does he believe that he ever engaged in an illegal practice or activity, nor does he possess any information that WAGNER ever knowingly participated in such activities. He stated that he recalls an incident involving the purchase of real estate in Hawaii, which subsequently fell through, whereby WAGNER transferred a note secured by a deed of trust, which property had already been foreclosed and hence the note was valueless, but that when he questioned WAGNER concerning this, WAGNER advised him that he had intended to transfer notes on property which was clear and that he had inadvertently transferred the incorrect notes.

UNGER also stated that the names GEORGE E. BARKDOLL and DOROTHY BARKDOLL are not familiar to him and he does not know these persons. He advised that he was not aware, in most cases, what disposition WAGNER made of his notes, or to whom they were transferred, if anyone.

He also stated that the name ALVIN R. STEWART is familiar to him as a Notary

Public with whom WAGNER was associated, but that he never met this person and does not know what connection, if any, STEWART had with the GRR Development Company. He stated that as he recalls, STEWART at one time lived in Arroyo Grande, California, but his present whereabouts are not known.

He stated that he has met PETER CRISTALL, a Canadian who resided at the Elsinore Hotel during the time that he, UNGER, owned the hotel, but that he possesses no information as to CRISTALL's whereabouts, other than that he probably returned to Canada. He stated that he is aware that CRISTALL executed a promissory note, secured by a deed of trust to property at Lake Elsinore, amount unknown, to WAGNER for property purchased by CRISTALL, and that as he recalls, it went to escrow and then fell through when CRISTALL made no payment. He stated that he cannot recall if CRISTALL purchased the property from WAGNER, or himself, UNGER, but he believes that it was WAGNER's property which was purchased.

UNGER stated that he plans to move on or about September 15, 1966, but that he does not know where he is going to move or how he can be located other than through correspondence to him through Post Office Box 290, Las Vegas, Nevada, which he still retains. He stated that he does not tell any relatives or associates where he can be located, and he knows of no other way he can be contacted after that date. He stated that should the need arise to recontact him, a letter to him at the above address would suffice and he would arrange a date for interview.

## CERTIFICATE

I certify that in connection with the preparation of this appendix, I have examined Ruless 18 and 19 of the United States Court of Appeals for the Ninth Circuit, and that in my opinion, the foregoing brief is in full compliance with those rules.

Date: .............................. day of .................., 1967.

SIDNEY I. LEZAK
United States Attorney
District of Oregon

No. 22680 MAR 10 1969

# In the United States Court of Appeals for the Ninth Circuit

JOHN C. WAGNER, ROBERT L. WAGNER and PETER C. UNGER, APPELLANTS

*v.*

UNITED STATES OF AMERICA, APPELLEE

Appeal from the United States District Court for the District of Oregon

## BRIEF FOR APPELLEE


SIDNEY I. LEZAK,
*United States Attorney*

*Of Counsel:*

JOHN N. FEGAN,
ARTHUR F. MATHEWS,
BURTON H. FINKELSTEIN,
DAVID J. LEVENSON,
*Attorneys,*
*United States Securities and Exchange Commission,*
*Washington, D. C.*

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## In the United States Court of Appeals for the Ninth Circuit

No. 22680

John C. Wagner, Robert L. Wagner and Peter C. Unger, appellants

*v.*

United States of America, appellee

**Appeal from the United States District Court for the District of Oregon**

## BRIEF FOR APPELLEE

## STATUTES INVOLVED

See Appendix.

## PRELIMINARY STATEMENT

John Wagner, Robert Wagner and Peter Unger appeal from judgments of conviction entered in the United States District Court for the District of Oregon on August 4, 1967 after a fourteen-day trial commencing on July 18, 1967 before the Honorable Robert C. Belloni and a jury.

Indictment 66 Cr. 265 was filed on December 7, 1966, naming appellants, John Wagner, Robert Wagner, Peter Unger and eight other defendants in various of the seven-

teen counts charging: conspiracy to violate the anti-fraud provisions of the Securities Act of 1933, and the Mail Fraud Statute (Count I); fraud in the sale of securities (Counts II through VI); mail fraud (Counts VII through XIII); conspiracy to defraud agencies of the United States, to make false statements, and to transport converted property interstate (Count XIV); making false statements to the government (Count XV); and interstate transportation of converted property (Counts XVI and XVII). Count XII was dismissed prior to trial, and Counts IV and VII were dismissed at the conclusion of the government's case. In addition, certain language of the indictment was stricken at the conclusion of the government's case and again prior to submission of the case to the jury.

John Wagner was named in all Counts of the indictment. Robert Wagner was named in Counts I and XIV. Peter Unger was named in Count I. Prior to trial the indictment was dismissed against William A. Shubin on the government's motion, and Alvin R. Stewart entered a plea of nolo contendere. After commencement of trial, the indictment was dismissed on the government's motion against Andrew J. Kosieris and the three corporations, Golden Rule Realty and Development Co., Inc., GRR Development, Inc., and Pioneer Mortgage Bankers. During the second week of trial, Gordon Z. Jongeward and Colman Carl Christensen entered pleas of nolo contendere.

John Wagner was convicted on each of the remaining fourteen counts of the indictment, and was sentenced to a total of ten years imprisonment, followed by five years' probation, and fined a total of $30,000, as follows: five years' imprisonment on each of Counts I and XIV, to run concurrently; five years' imprisonment on each of Counts VIII, IX, X, XI and XIII, to run concurrently with each other and consecutively with the sentence imposed on Counts I and XIV; five years' probation on Count XV, to run consecutively with the sentence imposed on Counts I, VIII, IX, X, XI, XIII and XIV; and $5,000 fines on each of Counts II, III, V, VI, XVI and XVII. Robert Wagner was convicted on Count I and acquitted on Count XIV, and sentenced to one year's imprisonment and fined $10,000.

Peter Unger was convicted on Count I and sentenced to four years' imprisonment.

All three appellants are presently at large on bail pending the determination of this appeal.

## SUMMARY OF CASE

Count I of the indictment charged every defendant, including John Wagner, Peter Unger, and Robert Wagner, with conspiracy (18 U.S.C. 371) to violate the anti-fraud provisions of the Securities Act of 1933 (15 U.S.C. 77q (a)), and the Mail Fraud Statute (18 U.S.C. 1341). This Count, as to which each of the appellants was found guilty, charged that they engaged in a scheme to defraud owners of various real estate interests located in Oregon, California, Hawaii, Arizona, and other Western states during the period from March 1963 through December 1966. The essence of the scheme charged in Count I was as follows: The defendants contrived and executed a series of deceptive real estate transactions acquiring raw land of little value for the purpose and with the intent of creating worthless and spurious promissory notes and trust deeds. They shunted the land so acquired to one another and to associates and nominees in a manner designed to inflate the purported value of such properties, and to enable them to create additional worthless trust deeds and promissory notes. The defendants then used these worthless securities in the acquisition of income-producing properties or valuable goods and services from defrauded victims by deceiving such victims into believing that the securities received in exchange for the property interests were bona fide and valuable.

As a part of the scheme, the defendants misrepresented to victims that the persons issuing the promissory notes and trust deeds had made substantial payments and possessed substantial equities in the properties covered by the trust deeds, and that interest and principal payments on the promissory notes were current and would be hon-

ored in the future as such payments became due. The defendants intentionally concealed from the defrauded persons that such promissory notes and trust deeds were of little or no value, that the persons issuing them had made no cash down payments and had little or no equities therein, that the promissory notes were delinquent and in default as to both interest and principal payments due, and that payments endorsed on certain of such notes were ficticious.

The defendants carried out a substantial portion of their scheme to defraud through three corporate defendants, Golden Rule Realty and Development Co., Inc. (Golden Rule), GRR Development, Inc. (GRR), and Pioneer Mortgage Bankers (Pioneer). In this connection the defendants gave promissory notes of Golden Rule, GRR and Pioneer to the persons to be defrauded in full or partial payment for real property interests, and falsely represented that such corporations had the financial resources to redeem the notes, would assume all obligations on the property, and would preserve and protect the seller's equity, when in fact the defendants well knew that they had neither the financial ability nor the intention of so doing. After acquiring such properties, the defendants followed a pattern of "milking" or "skimming" the revenues from the operations of the properties, including current and advance rentals from tenants and the sale of personal property thereon, for their own personal use and benefit while defaulting on their obligations to pay mortgages, taxes, labor and other operating expenses on the properties.

In order to create and portray the illusion of wealth, success, and respectability, the defendants prepared obviously inflated, false and misleading financial statements, which falsely included multi-million dollar assets in cash, notes receivable, and real property. These financial statements were circulated and disseminated in order not only to acquire additional properties, but also to obtain loans and establish credit ratings.

Counts II through XIII, as to which John Wagner was found guilty, realleged the fraudulent scheme described

and contained in Count I, and charged separate substantive violations of the anti-fraud provisions of the Securities Act (Counts II through VI) and of the Mail Fraud Statute (Counts VII through XIII).

Count XIV charged John Wagner, Robert Wagner and other defendants, with conspiracy to defraud agencies of the United States (18 U.S.C. 371), to make false statements within the jurisdiction of agencies of the United States (18 U.S.C. 1001), and to transport in interstate commerce monies fraudulently obtained and property fraudulently converted (18 U.S.C. 2314). Count XIV alleged that John Wagner and others conspired to acquire properties, including the Hollywood Towne House, and to "milk" these properties of all available income and revenues by collecting cash receivables, current rentals, and advance rentals on pre-paid long-term leases solicited from tenants in exchange for substantial discounts; to strip the properties by selling inventories and other assets; and then to convert such proceeds to their own use and benefit while defaulting on their obligations to make payments on mortgages insured or owned by federal agencies and to pay taxes, labor and other operating expenses on the properties. In furtherance of this fraudulent scheme, the defendants obtained cashiers' and travelers' checks and other negotiable instruments made payable to the defendants and their nominees, and thereafter transported such monies in interstate commerce knowing such monies had been stolen, converted and obtained by fraud. After acquiring possession and control of these properties, the defendants agreed to ignore and violate government regulations, mortgage agreements, and regulatory and modification agreements governing these properties, ignored and refused demands from federal agencies for required monthly income reports; falsified and concealed income disbursements in reports furnished to federal agencies; and permitted the mortgages to fall into default and be foreclosed, thereby requiring the government to assume liability thereunder.

Count XV, of which John Wagner was found guilty, charged that he knowingly made false statements in a doc-

ument, "Monthly Report for Establishing Net Income," for the Hollywood Towne House, submitted to the Federal Housing Administration. The false statements included the matters of rent collections, advance rentals paid, and cash receipts and disbursements for the month of December 1965.

Counts XVI and XVII, as to which John Wagner was found guilty, charged that he and another defendant transported personal property and monies in interstate commerce knowing that such property and monies had been stolen, converted and obtained by fraud from the Hollywood Towne House and other real properties.

## COUNTER STATEMENT OF THE CASE

At the trial voluminous evidence was adduced in connection with well over 40 complex real estate transactions that the defendants consummated in furtherance of their scheme to defraud. Since both Peter Unger and Robert Wagner challenge at length the sufficiency of the evidence to sustain their convictions on Count I, and since they fail to mention their activities with respect to many of such transactions and distort their roles with respect to those transactions which they do mention in their briefs, the government feels compelled to provide a comprehensive counter statement of the case.

### A. Acquisition of Elsinore Properties

In 1963, John Wagner and Peter Unger began acquiring raw and undeveloped acreage around Elsinore, California by making purchase offers at attractive prices. If these purchase offers were accepted, they made a small or no cash down payment; they gave promissory notes and trust deeds which they had no intention of honoring. Thereafter, the land thus acquired was shunted by John Wagner and Peter Unger to one another or to associates, inflating the purported value of the properties and creating even more worthless trust deeds and promissory notes which were subsequently used in the acquisition of income-producing

properties in other areas. The Elsinore properties acquired in this scheme were the Paonessa, Rupard and Evans Tracts.

*Paonessa Tract*

In April 1963, Peter Unger and John Wagner acquired a 700-acre "rock ranch" located along a desolate and rocky canyon (Tr. 409)[1] from Raymond B. Paonessa. Paonessa had acquired the property in 1940 for $1500. Although Peter Unger and John Wagner represented themselves as wealthy and successful businessmen, and originally offered Paonessa $90,000 with a $20,000 cash down payment, all Paonessa finally received after a six month delay was about $4,200 plus trust deeds (Tr. 309, 332, 338; GX 54-A). In June 1964 Paonessa commenced a foreclosure action because of default in payments on the trust deeds (Tr. 339). During 1963 and 1964, after they had divided the tract into 48 parcels, John Wagner and Peter Unger shunted the parcels to one another, to their wives, and to an associate (Tr. 339). This complex shunting operation was accomplished as follows: On November 6, 1963 John Wagner conveyed an undivided one-half interest in 28 parcels to his wife Marjorie, and an undivided one-half interest in those same parcels to Peter Unger's wife Rosa (Doc. #119100);[2] on May 22, 1964 Rosa Unger, by Peter Unger, her attorney-in-fact, conveyed her interest in these and other parcels to Marjorie Wagner (Doc. #63617); on October 29, 1964 Marjorie Wagner, by John Wagner her attorney-in-fact, conveyed these parcels back to Rosa Unger (Doc. #131828); and on November 28, 1964 John and Marjorie Wagner again conveyed these parcels to Rosa Unger (Doc. #142847). Finally, on January 15,

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[1] References to pages of the transcript of proceedings at trial are designated "Tr. ——." References to pages of the transcript of proceedings prior to trial are designated "Pre-Tr. ——," with the date. References to government exhibits are designated by "GX ——." References to the transcript record of the Clerk of Court are designated "C.T. ——."

[2] References to recorded documents are designated by "Doc. #——."

1965, Peter and Rosa Unger issued separate $7,500 promissory notes secured by trust deeds on each parcel to John Wagner, a total of more than $100,000 (Tr. 1585, 2342-43). On October 18, 1963, John Wagner conveyed 16 parcels of the Paonessa trace to Garth W. Slate, a retired army sergeant who was managing a motel for him and whose only income was a $160 monthly pension (Tr. 291, GX 274-D; Doc. #115341). Slate executed trust deeds and promissory notes for $7,500 on each parcel for a total of $120,000 (GX 274-D; Docs. #115341, 120649). Slate testified that he paid nothing down and did not intend to make any payments on his trust deeds and promissory notes, and that the purpose of the transaction was to have something to trade with (Tr. 296). He further testified that Peter Unger accompanied John Wagner when the deal was discussed.

### *Rupard Tract*

Also during 1963, John Wagner and Peter Unger acquired the 96-acre Rupard Tract,[3] following a course of conduct similar to that involved in their acquisition of the Paonessa Tract. This time, John Wagner represented himself to Rupard as having made a lot of money in South America which he had sent to Switzerland for safekeeping (Tr. 839). Peter Unger, acting as John Wagner's agent, purchased the tract for $1,250 an acre, a total of $120,000 (Tr. 841). The tract was divided into 10 parcels, and the Rupards were given promissory notes ranging from approximately $3,800 to $30,000 which were secured by trust deeds on each parcel (GX 268-B, 277-A). John Wagner and Peter Unger defaulted on payments and a formal notice of default was filed on November 6, 1964. On April 20, 1965, at the Tustee's sale, John Wagner partly was foreclosed of any interest in the parcels (Tr. 827-29; GX 300A-1). In order to create the appearance of development so that he could borrow $40,000 to $50,000 on some of the

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[3] The Rupard Tract is often referred to as the Elsinore Land Agency Tract because the parcels in these trust deeds were described by reference to 25-foot lots on an old and unrecorded subdivision map known by that name.

parcels, John Wagner had roads cut into the Rupard tract (Tr. 367-68). All interest on the parcels on which he had borrowed was conveyed out or foreclosed by the Trustee's sale on July 21, 1965 (GX 279B-1, 277A; Doc. #64075; GX 281G-1, Doc. #74076). Once again, as with the Paonessa Tract, John Wagner and Peter Unger shunted the Rupard Tract parcels to and from one another and their wives, with Peter Unger finally executing a series of $1250 promissory notes secured by trust deeds to John Wagner in November 1964 (GX 268-B, 277-A; Tr. 2343). These conveyances and reconveyances inflated the purported value of the property, which was thereafter carried on a balance sheet of John Wagner at the incredible value of $6,525,000 (GX 42-E; Tr. 840).[4]

### *Evans Tract*

In 1950 Carl Evans acquired a 10-acre tract of land in Elsinore (part of an old plot known as the Mutual Benefit Tract) for cash and labor totaling $1,000 (Tr. 216). In 1963, shortly after he was offered $3,000 for the property, Evans received a long-distance telephone call from Peter Unger, who said his client John Wagner would pay him $7,500 for the land, with $1,500 cash down and the balance in semi-annual payments secured by a trust deed (Tr. 220-23). Pursuant to Peter Unger's instructions, Evans executed a grant deed giving "free and clear" title to John Wagner, and mailed it to Peter Unger. The deed was recorded on December 11, 1963 (GX 274-B, Doc. #130762), but, as with the Paonessa and Rupard transactions, Evans never received any payments, although he did receive confusing and evasive correspondence for several months (Tr. 236, 240). In 1964, John Wagner and Peter Unger shunted parcels of the Evans tract to one another, to their wives or to associates, with John Wagner conveying blocks of lots to Peter Unger's wife, to a Canadian named Peter

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[4] Similarly, at a later date, Stewart and Golden Rule created $400,000 in trust deeds on the Rupard Tract (Tr. 756; GX 23-H, 23-D, 23-I to 23-CC), which was then listed as a $400,000 "asset" on the corporation's balance sheets (GX 312-B, 160-C).

Cristall, who was then staying at Peter Unger's hotel, and to a real estate broker named D. D. Vance, in exchange for purchase money notes and trust deeds totaling $63,000 (Tr. 382-86). These were later used by defendants to purchase properties, but no payments were ever made by the obligors on these notes and trust deeds.

### B. Acquisition of Los Angeles Area Properties

As a result of their acquisition of properties in the Elsinore area in 1963 and 1964, John Wagner and Peter Unger built up a large inventory of worthless promissory notes and trust deeds. Through grossly exaggerated financial statements based thereon, they portrayed themselves as wealthy and successful real estate entrepreneurs. With this portfolio of valueless paper they proceeded to the Los Angeles area in November 1964 to implement their plan to acquire and "milk" income-producing properties.

#### *Lishner Properties*

Arthur H. Lishner was having difficulty marketing his three luxury residences located in Beverly Hills, and was unable to obtain "take-out" loans to pay off his interim financing (Tr. 244). In November 1964, John Wagner, representing himself as extremely wealthy, showed Lishner clippings about the "real estate boom" in Elsinore and told him that he (Wagner) would have no trouble getting loans on the houses (Tr. 245-46, 249). John Wagner acquired grant deeds to these properties, which he immediately recorded, purportedly to facilitate his getting loans, by representing to Lishner that he would assume all obligations and by giving him as "consideration" six $7,500 promissory notes executed by Slate and secured by trust deeds on Paonessa Tract parcels (Tr. 284). John Wagner told Lishner that Slate, the obligor, was a retired army colonel, and showed him a payment book which falsely reflected current monthly payments on each note (GX 339-A). The transaction was placed in escrow. John Wagner moved into one of the houses after representing that he was going to buy one for his son and that Peter Unger,

"a man of great affluence," was going to buy the other (Tr. 250). Lishner had his attorney write to John Wagner to confirm the agreement, and to Slate to confirm his payment record (GX 944; Tr. 276). Slate's first response was ambiguous and uninformative (GX 94-F; Tr. 271). Four subsequent letters went unanswered. In February 1965, at a time when Lishner had been under increasing pressure from banks to pay off his loans, Peter Unger contacted him and represented that he was going to take over in place of John Wagner and close the escrow (Tr. 256). At that time, Peter Unger had been living in one of the houses and had leased and collected $300 monthly rentals on each of the other two houses (Tr. 261). Peter Unger never completed the escrow and Slate, who was not a former army colonel but a former army sergeant receiving a $160 monthly pension never made any payments nor did he ever intend to make such payments with respect to the trust deed arrangement he had entered into with John Wagner (Tr. 262, 283, 291, 294, 296). As a result, the banks foreclosed on the properties and Lishner, the defrauded seller, lost his houses.

### *Rubel Transaction*

During the same period, John Wagner, representing to Rauel Rubel, a furniture dealer, that he had invested all the money from the sale of his South American steel mill in real estate, offered to trade Elsinore properties for approximately $8,700 worth of Rubel's furniture for the Lishner houses he and his son were then occupying (Tr. 482). Rubel delivered the furniture but never got John Wagner's worthless deed to title to Elsinore properties. Rubel was never paid for his furniture. When he went to reposses the furniture, both the furniture and John Wagner were gone (Tr. 487).

### C. Acquisition of Pismo Beach, Arroyo Grande and Santa Maria, California Properties

In late 1964, at about the same time they were operating in Beverly Hills, John Wagner and Peter Unger, with their

inventory of worthless promissory notes and trust deeds and their false financial statements, moved to another area of California, namely Pismo Beach, Arroyo Grande and Santa Maria. John Wagner, with Peter Unger as his agent appeared in the offices of Golden Rule, a real estate business operated by defendants Christensen and Jongeward (Tr. 587). Again playing the role of a millionaire interested in acquiring large acreage, John Wagner showed Christensen and Jongeward a balance sheet indicating his net worth at several million dollars (Tr. 749). Shortly thereafter, Christensen and Jongeward were arranging real estate deals for John Wagner and Peter Unger financed with the worthless promissory notes and trust deeds.

### *Harris Properties*

In December 1964, John Wagner acquired a group of income-producing duplex and triplex properties from Ellis Harris by agreeing to assume substantial mortgage payments and by assigning to him nine of the $650 promissory notes and trust deeds executed by Vance to John Wagner on the Evans Tract parcels (Tr. 45; GX 273-A, 273-J; Docs. #151694, 151970 and 16468). Harris was falsely told that payments on the trust deeds were current and that the parcels were being developed. (Tr. 32, 45) This deal was arranged by Christensen, who introduced John Wagner to the Harrises as a wealthy and well-known developer (Tr. 30). Once again, as with their other acquisitions, John Wagner and Peter Unger shunted the duplex and triplex properties to one another in a confusing series of transactions, generating more trust deeds and constantly inflating the purported value of the properties. Unknown to Harris, the grantee in the deeds signed by Harris was changed from John Wagner to Peter Unger (Tr. 37; GX 109-1, 109-X, 109-DD). Peter Unger then deeded the properties back to John Wagner (Tr. 40-42; GX 109-J, 109-Z, 109-FF), who issued second trust deeds to Peter Unger (Tr. 43; GX 109-HH, 109-BB, 11C, 11D, 11N). Peter Unger admitted that he received an $18,000 trust

deed on the Harris duplexes from John Wagner, and that he then discounted it for $7,500 (Tr. 2417).

Harris and Christensen had co-owned an apartment building known as the Harbor Lights, and Harris had recently sold his 65% interest in that property to Christensen for cash and an $8,000 promissory note (Tr. 55, 83). In arranging the sale of the Harris duplexes and triplexes, Christensen told Harris that he had sold the Harbor Lights apartments to John Wagner (Tr. 30). However, Christensen had conveyed title to the Harbor Lights to Peter Unger, who then conveyed title to John Wagner in exchange for a $45,000 second trust deed (Tr. 56-57; GX 109-G). Thereafter, John Wagner listed the Harbor Lights on his financial statement at a value of $240,000 and showed no liability for the mortgage payments or trust deed obligations he had assumed (Tr. 60; GX 327B, 327C). John Wagner collected approximately $1,400 monthly in rentals on the Harris duplexes and triplexes, but did not pay any of the properties' outstanding obligations. Vance, the obligor on the trust deeds given in payment to acquire the properties, made no payments and never answered Harris' inquiries (Tr. 48-49). This resulted in a bank foreclosure action with Harris losing his equities in the properties (Tr. 58, 116).

### *Shorts Property*

Additional property was acquired with John Wagner and Peter Unger's portfolio of worthless Elsinore trust deeds and promissory notes from an elderly couple, Charles H. Shorts and his wife. Golden Rule salesman, and defendant, Stewart contacted the Shorts to arrange a deal involving the sale of their Blue Seven Motel at Pismo Beach, which was heavily encumbered by first and second trust deeds, and their subsequent purchase of a house with the proceeds (Tr. 138-140). Stewart represented to the Shorts that John Wagner, now a purported millionaire land speculator from Los Angeles, would pay them for their interest in the Motel with trust deeds which were "good as gold," that John Wagner would assume all obligations and that

they could then use the trust deeds to buy a house (Tr. 140). In exchange for the deed to the Motel, John Wagner assigned to the Shorts eight of the $1,250 trust deeds which Peter Unger had issued to him on the Evans Tract parcels, after having assured Stewart that payments by Peter Unger were current (Tr. 144, 750). Thereafter, although John Wagner, through his son, collected the Motel's receipts of about $420 a month, he did not make the required mortgage payments with the result that the Motel mortgage was foreclosed (Tr. 147). Peter Unger made no payments on the Evans Tract trust deeds given by John Wagner to the Shorts, and never answered the Short's letter. In addition, Stewart had arranged for the Shorts to purchase a house in Oceano. John Wagner had acquired this house along with four other properties in the Arroyo Grande area from Christensen and Jongeward in March 1965 by agreeing to assume the outstanding first mortgage obligations on each and by giving them promissory notes and trust deeds in payment for their equities (Tr. 186-90; GX 223-A, 331-A, 331-B).[5] Before the escrow which had been opened for the sale to Shorts could close, the bank foreclosed on the house because of John Wagner's default in mortgage payments, despite two warning letters from the escrow agent (Tr. 147, 183, 184, 199, 205).

### *Smith Property*

In January 1965, Christensen and Jongeward attempted to acquire another income-producing property, a resort motel in Oceano from William B. Smith for $100,000 in the Evans Tract trust deeds which Peter Unger had issued to John Wagner (Tr. 161; GX 42-A to 42-G). Smith was told that Peter Unger's trust deeds would be backed by John Wagner, who had lots of money and who was a joint-venturer with him on the project (Tr. 172). Smith was given personal balance sheets of John Wagner which

[5] These promissory notes and trust deeds appeared as assets on GRR's June 1, 1965 balance sheet (GX-59-A), even though all first mortgages were then in default and were eventually foreclosed (GX 340-A; Tr. 199).

showed his net worth to be more than $20,000,000 (GX 42-E, 42-H; Tr. 161-62).[6] The attempted acquisition was unsuccessful when Smith's investigation of the Evans Tract revealed that what Christensen had represented as lake-front property was in reality unimproved and desolate land (Tr. 164).

**D. Acquisition of Elko, Nevada Property—Golden Rule Realty and Development Co., Inc.**

In early 1965, Golden Rule became a vehicle for further implementation of the fraudulent scheme to execute deceptive real estate transactions using the valueless trust deeds and promissory notes created by John Wagner and Peter Unger in their acquisition of the Elsinore properties. Through Golden Rule, the defendants generated additional spurious paper for use in the acquisition of more properties and in the creation of false financial statements. Thus, in February 1965, John Wagner joined Christensen and Jongeward as one-third owner and Chairman of the Board of Golden Rule (Tr. 2160-62).

***Ruby View Trailer Estates***

In February 1965, Peter Unger acting for John Wagner, acquired "sight unseen" about 160 acres of barren sagebrush, originally subdivided into 720 lots and known as the Ruby View Trailer Estates, on the outskirts of Elko, Nevada from Mark Norda for $271,225 in trust deeds executed by John Wagner on the property (Tr. 42, 613). Norda had acquired the property just before that time from Bennett Hymes for the considerations of a used Bently valued at less than $2000 and the assumption of the $2700 balance on the original purchase mortgage (Tr. 607). In a shunting pattern aimed at creating more worthless paper, John Wagner conveyed the fee to Golden Rule in exchange for other trust deeds on certain Ruby

[6] John Wagner listed the Rupard Tract, recently acquired for $120,000, at the fantastic value of $6,525,000, but omitted the liability for the unpaid purchase price which was then in default (GX 42-E, 42-H).

View lots, some of which he then assigned to Peter Unger. Golden Rule then conveyed the fee on other lots to Stewart in exchange for approximately $326,000 in additional trust deeds on the property.[7] This Elko property, which was valued at no more than $6400 (Tr. 634) and which was acquired by Peter Unger and John Wagner with absolutely no cash investment, was listed in the financial statements of Golden Rule for March 31 and June 1, 1965 as a $700,000 asset (GX 59-A, 160-A). The financial statement for November 1, 1965 lists 374 of the 700 lots in Elko as "developed realty," again at the incredible value of $1000 each, a total of $374,000, and lists Stewart's trust deeds for $326,000 as "notes receivable" (GX 59-B). The financial statement for June 1, 1966 lists only Stewart's trust deeds, now described as "2nd Trust Deeds on 326 lots Ruby View Estates, Elko, Nevada," and shows $3260 a month income thereon (GX 160-E; Tr. 760).

### *Creation of More Valueless Paper— Rupard Tract Revisited*

In early 1965 Stewart was again used as a "straw" to create additional trust deeds on the Rupard Tract. John Wagner and Peter Unger had acquired the Rupard Tract for $120,000 in worthless and dishonored promissory notes and trust deeds which ultimately resulted in foreclosure of their interest in April 1965. Stewart placed in escrow a deed to Golden Rule for 200 lots in the Rupard Tract, even though he had no title to convey, in exchange for twenty $20,000 trust deeds issued by Golden Rule to him (GX 23-B, 23-C, 23-D, 23-H; Tr. 757). He then assigned this $400,000 in trust deeds back to Golden Rule (GX 23-I to 23-CC; Tr. 756), which then listed them on its financial statements of March 31 and November 1, 1965 as "free and clear" assets of $400,000 (GX 312-B, 160-C; Tr. 757-58).

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[7] Stewart admitted he was told that he would never have to make any of the required $3260 monthly payments, and that he never intended to because he would have been unable to do so (Tr. 760, 773).

### E. Golden Rule Moves to San Francisco—GRR Development, Inc. Is Formed

In March 1965, the center of operations of Golden Rule was transferred to San Francisco, where the corporate name was changed to GRR Development, Inc. (GRR), and bank accounts were opened (Tr. 498, 501, 509). This phase of the defendants' activities encompassed the application for credit at San Francisco banks using false financial statements which omitted all liabilities and showed only millions of dollars in assets from the ownership of Elsinore, Elko and Hawaiian properties and trust deeds (GX 312-B, 337-A-1, 337-B-1; Tr. 502-505, 509-12, 523, 563, 566.[8] Similarly, false financial statements submitted to Dun & Bradstreet flagrantly represented a net worth increasing from $1,000,000 to nearly $10,000,000 (GX 160B, 160C; Tr. 547-48). After establishing "respectable" credit and banking references, the defendants continued to broaden their deceptive real estate operations.

#### *Temelec Project*

In May 1965, GRR entered into negotiations for the purchase of a 1000-home retirement project on 180 acres north of San Francisco, known as Temelec, Inc., with Claxton, Weiss & Associates, its financially over-extended contractors (Tr. 555). Claxton and Weiss agreed to assign their stock to GRR, subject to the California Corporation Commissioner's approval, and project assistance, in exchange for John Wagner, Christensen and Jongeward's "hold harmless" agreement and $10,000.00 worth of Vance's Evans Tract trust deeds in consideration for their technical assistance as contractors on the project. In addition, GRR agreed to assume Claxton and Weiss' obligations on the property. The stock transfer transaction was never completed (Tr. 566). Nevertheless GRR immediately added the property to its financial statement for June 1, 1965 as an asset of $3,600,000, and showed liabilities of only $36,000 thereon, and further

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[8] For a discussion of the implementation of the fraudulant scheme in Hawaii see Part F, *infra*.

noted that GRR would start the second phase of the project within two weeks and would complete a golf course and 1000 homes within 18 months (GX 59A, 160B). In fact, the land itself, listed at a value of $2,880,000 by GRR, was worth at best only $900,000; the liabilities were about $500,000; and the proposed development was never undertaken (Tr. 565). In addition, despite John Wagner's assurances that payments on the trust deeds were current, Claxton and Weiss received no payments from Vance, the obligor, and received no replies to their letters to him (Tr. 561).

### F. GRR Activities in Hawaii

With their vast inventory of worthless paper and a falsely created image of wealth and success, the defendants shifted to Hawaii to acquire and "milk" more income-producing properties. It was during this Hawaiian phase, embracing the acquisition of the Aloha Estates, that Robert Wagner became an active participant in the fraudulent scheme along with John Wagner, Peter Unger, Christensen, Jongeward and Stewart.

#### Acquisition of Aloha Estates

Robert Wagner was a member of the nine-stockholder coordinating committee which directed the affairs of Aloha Estates, part of a large land development on the "big island" of Hawaii. Its owners, a group of real estate investors in three corporations, were having difficulty making mortgage payments and carrying on the development program. Robert Wagner was also the resident manager of Aloha Estates. He and Robert Thomas, another member of the coordinating committee, held interests in a $33,000 second mortgage on the property which they had received for performing engineering services as Pack & Associates. In April 1965, through a real estate broker named Shipman, GRR offered to purchase 173 lots in Aloha Estates for a $203,780 promissory note secured by a purchase money mortgage. The Hawaiian investors, after receiving GRR's financial statement for March 1, 1965, accepted the offer and deeded the lots to GRR, with monthly payments

on the promissory note scheduled to begin in June 1965 (GX 81-D, 275-B, 201-OO, 201-NN; Tr. 850, 851, 855, 866). When GRR failed to make payments for June and July 1965, the coordinating committee sent Robert Wagner, who had had the major responsibility for negotiating the deal for the Hawaiians, to the mainland to seek a rescission (Tr. 867-68). On August 13, 1965, Robert Wagner reported back to the coordinating committee that GRR would not deed back the properties because the $33,000 second mortgage to Pack & Associates had not been previously disclosed.[9] He then transmitted to the committee GRR's offer to exchange 50¢ in trust deeds on properties in Elsinore, California and Elko, Nevada for $1 in stock in the Hawaiian investors' corporations which held Aloha Estates (Tr. 869). According to the committee members, Robert Wagner told them that he had seen the Elsinore properties; that the land was "a going development" (Tr. 888), "fully developed" (Tr. 921), "beginning to develop" (Tr. 869), and "under development" (Tr. 953); and that lots were improved and the developer was building homes on them (Tr. 912). He also told them that the trust deeds offered in exchange by GRR were good and valid, and that payments were being made on them (Tr. 899, 928). He then distributed an out-dated brochure describing the Elsinore area without mentioning that the brochure, was not current (GX 323-A; Tr. 889-90).

In response to Robert Wagner's August 14, 1965 letter to John Wagner requesting that a GRR representative present the offer to the Hawaiian investors (GX 201-D), Christensen met with the investors on August 27, 1965, told them of GRR's exchange offer and produced a sample trust deed showing current payments (Tr. 871). Christensen explained that the exchange offer involved first trust deeds; that the land was being developed by a contractor;

[9] Robert Wagner admitted that he deliberately concealed this mortgage during the negotiations because he "wanted a little pawn," but that his intention to remove it was thwarted when the Internal Revenue Service placed a lien on Thomas' interest (Tr. 2568).

and that the trust deeds would be paid off as the houses were sold (Tr. 891, 912). After Christensen left the room, Robert Wagner stated that he had checked with a financial institution around Riverside where the payments were purportedly made, and represented that they were current (Tr. 871).[10] Following these convincing performances of Robert Wagner and Christensen, nearly all the Hawaiian investors agreed to accept the GRR trust deeds for their stock, and an escrow was opened to accomplish the exchange (GX 111-A to 111-AA; Tr. 998). Thus, with the indispensable assistance of Robert Wagner, GRR acquired Aloha Estates by giving the Hawaiians the worthless trust deeds executed by Peter Unger on the Rupard Tract parcels, and the equally valueless trust deeds executed by Vance on the Evans Tract property (GX 268-B; GX 93-S, Tr. 1016; GX 82-A, 82-B; Tr. 891; GX 88-A, Tr. 873; GX 90-A, 90-B, Tr. 953). Neither Peter Unger nor Vance made any payments on the trust deeds, and neither replied to any letters written to them by the Hawaiians (Tr. 892-94, 922, 930, 954, 1016).

While Robert Wagner was inducing his fellow Hawaiian investors to accept GRR's exchange offer, and thereafter, he concealed from them: that he was assisting John Wagner, Peter Unger and Christensen in May 1965 in seeking acquisition of distress properties (Tr. 2564, 2505; GX 201-A); that he transferred his interest in the second mortgage of Pack & Associates on Aloha Estates to John Wagner in July 1965 in exchange for trust deeds on Los Angeles apartment houses which he attempted to sell for cash with the help of Peter Unger and which he later attempted to have John Wagner sell for an equity in a residence in Portland, apparently in anticipation of his working for GRR there (GX 201-F; Tr. 2496-97, 2499,

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[10] Thomas was not present at this meeting, but he was contacted by Robert Wagner, John Wagner and Christensen in September 1965. Robert Wagner then told him that the Elsinore properties were good, and that his check at the institution where payments were being made showed that six or seven payments had been made and were current (Tr. 939).

2503-2504); that in about August 1965, he attempted to arrange a bank loan to finance a deal involving his purchase of a second unit of lots in Aloha Estates and its subsequent sale to GRR for approximately $430,000 (GX 201-E, 201-G, 201-H, 591-G; Tr. 2507-2508, 2562-70); that during September 1965 he wrote John Wagner with respect to his employment with GRR in Portland (GX 201-F, 201-G; Tr. 2512, 2555); and that in early October he wrote to John Wagner that "I have spent much time and money getting the Aloha Estates deal to this point and I really need help. I must be able to count on something very soon." (GX 201-G; Tr. 1076, 2511).

**Lulling Activities**

Subsequent to the acceptance of GRR's exchange offer, Robert Wagner and Peter Unger continued to lull investors concerning this transaction. For example, A. Lee Brown, a Hawaiian investor who had received no reply to his letters to Peter Unger, received, to his amazement, an offer to purchase his house from Peter Unger, representing himself as President of Aloha Development, Inc. (Tr. 904, 906; GX 324-A). Unaware that Brown held his trust deeds, Peter Unger met with Brown in January 1966 and described the great financial worth and extensive holdings of his corporation and explained that it was his method of operation not to deal in cash (Tr. 907). When Brown confronted him about his trust deeds, Peter Unger admitted he had made no payments and said he believed he wasn't obligated to do so until January 1966 (Tr. 908). The next day Peter Unger left Brown a note and a $20 check for the January payment.[11] Brown, receiving no subsequent payments, then called a meeting of some of the Hawaiian investors, including Robert Wagner, to tell of his en-

[11] The note stated: "I think the payments have been made to Mr. Wagner through December 1965. I will check my papers on the mainland. Please send payment book, Pete." (GX 288-A). In a similar manner, Peter Unger lulled Hawaiian investor Mrs. Marie King into believing she would receive future payments by virtue of his contacting John Wagner (Tr. 1211).

counter with Peter Unger and expressed his opinion that Peter Unger was a "con man." Robert Wagner, falsely denying that he knew anything about Peter Unger or that he had even met him, cautioned Brown against calling him a "con man" (Tr. 911, 941).

While on several occasions Robert Wagner advised his friends in Hawaii that Peter Unger and John Wagner were "shysters" and wholly untrustworthy,[12] he nevertheless continued to associate with them and for many months thereafter participated in their activities. After his return from the mainland in December 1965, Robert Wagner and Peter Unger, now in control of Aloha Estates, opened a bank account for Aloha Development, Inc. at the Bank of Hawaii, listing Robert Wagner as president and Peter Unger as vice-president (GX 321-C). Thereafter proceeds

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[12] Charles Voight, holder of the first mortgage on Aloha Estates, told Robert Wagner that he had just received a letter from Christensen advising him that he had just lined up a group of Phoenix, Arizona investors who were interested in developing the Aloha Estates project (GX 297-E; Tr. 1929). Robert Wagner then said that since he was going to the mainland to check on the trust deeds his group had received from GRR, he would also check on the Phoenix deal for Voight. Upon his return from the mainland in December 1965, Robert Wagner advised Voight that the trust deeds were "phonies", that the people did not own the land and that no money had been paid down (Tr. 1931, 2485). Further, David Oppenheimer, an Hawaiian investor who relied upon Robert Wagner in accepting the GRR exchange offer, received a letter from Robert Wagner dated February 16, 1966, stating:

> I cannot say that I am very surprised to find out that the TD's are phony. . . . As far as taking legal action against the shysters, I really an not interested in participating for a number of reasons. The first being that I don't think that it would be financially worth the while. Secondly, I do not think that California law would work fast enough to help us. By this I mean that by the time you got the thing to court and found Wagner, it would be 1999. Thirdly, if I put the same amount of time, money and effort into something constructive, I would then make up my loss many times over. Fourthly, Wagner would in all probability countersue because of Thomas' liens on the property. From the very start, we sold a clouded piece of property to them, so who really was at fault from the start? If further events take place, please notify me of them. Yours very truly, Bob. (GX 93-PP, Tr. 2572-73)

from lot sales were deposited in this account, and both of them made withdrawals for their personal use and benefit (Tr. 1001, 2495). In February 1966, Peter Unger became disenchanted with the operation of Aloha Estates and Robert Wagner gained complete control; but he was unable to prevent foreclosure on the first mortgage, and Aloha Estates was taken over by a Commissioner in March 1966 (Tr. 1069-75).

In addition, Robert Wagner worked with Peter Unger on numerous real estate transactions in Hawaii, at a time when he knew the deception practiced on the Hawaiians. One such transaction involved Benjamin Michael, who had advertised his $70,000 home and lots for sale in January 1966. Peter Unger and Robert Wagner, represented themselves as wealthy and successful real estate operators acting on behalf of Christensen, president of GRR, a company which had over $7.5 million in assets and offered to purchase Michael's house. (Tr. 1059). After Michael agreed to the offer, Peter Unger, who was to make the payments until Chistrensen had the papers drawn up, moved into the house in February 1966. Peter Unger made the payments for February and March 1966, and then, as he had previously done with the Lishner property, leased the house for $200 a month. When no papers were forthcoming, Michael telephoned Christensen who told him not to worry and that he would back up any deal made by Peter Unger. Michael heard nothing further from Christensen, but Peter Unger wrote him reassuringly on March 1, 1966, offering in payment a second mortgage on a residence he had purchased in December 1965 from Langston [13] in Phoenix with phony Elsinore trust deeds (GX 600, Tr. 2449). Peter Unger again wrote Michael on March 8, 1966, explaining that GRR and Robert Wagner were attempting to buy the Pacific Empress Hotel which he (Unger) would probably run, and that Christensen, who had been in Jamaica, would take care of the papers on his (Michael's) house in a few days (GX 370-A; Tr. 1063). Michael never received the papers or any payments (Tr.

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[13] For a discussion of this acquisition see Part G, *infra.*

1061). Robert Wagner then joined John Wagner, Peter Unger, Christensen and Jongeward on the mainland in March 1966 and participated in the group's acquisition of other properties in Oregon and other Western states, in exchange for worthless securities.

### G. GRR Activities in Portland, Oregon and Phoenix, Arizona

In July or August 1965, John Wagner and Christensen met John Clarke, a Portland realtor, and his saleswoman, Dixie Vilks, by answering an advertisement offering an apartment for sale. John Wagner and Christensen represented that they owned over $9 million in property and "paper," including trust deeds on properties in California and Nevada (Tr. 1525). They explained that their notes were good for loans up to 50% (Tr. 1527). They gave Clarke a financial statement of June 8, 1965 showing a net worth of nearly $6 million. Included in the GRR assets were the Rupard Tract lots ($400,000) which had been foreclosed in April 1965; the Temelec project ($3,000,000) which they did not own; the near-worthless Elko sage brush tract ($750,000); and the Aloha Estates property ($555,-000) which they had just purchased for approximately $200,000 (GX 504-A). They showed Clarke trust deeds on the Elko property issued to John Wagner by Stewart, who they said was a developer, and represented that payments on the trust deeds were current (Tr. 1539). Soon after this initial meeting, and without even looking at the buildings, they made offers through Vilks to purchase the Galaxy Apartments, a million dollar structure, and the Alameda and the Jarrett, all Federal Housing Administration (F.H.A.) insured buildings in Portland (GX 59-C, 137-C, 137-E; Tr. 1535). In the now familiar pattern, many properties were immediately added to the assets shown on the GRR financial statements at greatly increased values after the offers were made even though the sales never closed (GX 59-B, 59-M, 59-KK; Tr. 1549-51). John Wagner also directed Vilks to send out to the Computer Listing Service, a nation-wide real estate brokers' associ-

ation, offers to purchase millions of dollars of properties in California, Colorado, Washington, and Texas which he had selected at random after looking at pictures in her listing book (Tr. 1552-66). As a result, GRR's false financial statements were circulated in Colorado, Washington and Texas, in addition to California, Nevada, Hawaii and Oregon.[14] One of the offers made through Vilks eventually resulted in the purchase by GRR of the Puebloan Motor Inn.[15]

### *Acquisition of the Hollywood Towne House*

Perhaps the largest transaction resulting from such offers was the purchase for approximately $3 million of the Hollywood Towne House, a newly completed F.H.A. financed high-rise apartment in Portland which had been operating at a loss for some time. The owners were so financially distressed that the mortgage payments of approximately $17,000 a month were typically made 59 days late to prevent a 60-day delinquency and default.[16] Negotiations for the purchase of Hollywood Towne House were carried on by John Wagner and Christensen with John Prag and Thomas Spencer,[17] two of the three principal owners of the building (Tr. 1094). John Wagner and Christensen again represented themselves as large real estate developers who owned Hawaiian properties which John Wagner said had been owned by "his father" Robert Wagner (Tr. 1120-22, 1226, 1278). In addition to obtaining reports on GRR from Dun & Bradstreet, Prag and

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[14] Vilks accompanied John Wagner and Jongeward on a trip to Texas and Colorado. An offer was made to purchase the Redstone Lodge and Country Club in Colorado for $1,500,000 (GX 59-P; Tr. 1559).

[15] See Part I, *infra*.

[16] At one point John Wagner had told the sellers that he was not concerned with the building's operating losses because they would sell it for a big profit to a group of wealthy Arizona investors who were looking for a tax loss situation (Tr. 1132).

[17] Prag and Spencer were count witnesses in Count V of the indictment.

Spencer received a GRR financial statement of June 1, 1965 showing $6 million in assets. John Wagner and Christensen represented that this statement was out-of-date and that a current financial statement would show approximately $8 million in assets (GX 504-A, 504-B; Tr. 1108, 1123, 1279).

In November 1965, even though the sale was not yet completed, GRR listed the Hollywood Towne House as an asset on its financial statement without disclosing any liability for the purchase price or other obligations that were to be assumed (Tr. 1286-87). In the final agreement in early December 1965, the stock of Hollywood Towne House, Inc. was sold to GRR in exchange for its agreement to assume the almost $2.5 million mortgage and to promptly make all mortgage, tax and lien payments on the building (GX 502-A). While GRR paid no cash, it did give its corporate notes for $829,000, secured in part by a second mortgage for $203,780 on the Aloha Estates property and an assignment of the second mortgage Robert Wagner had obtained on that property (GX 506-F, 506-J; Tr. 243, 1183-84). Election of new directors and officers of Hollywood Towne House, Inc. was then held: John Wagner became president, and Christensen became vice-president and secretary treasurer.

The F.H.A. insured mortgage on the property incorporated provisions of a regulatory agreement which prohibited collection of more than the current month's rentals plus a deposit; prohibited disposition of the property or of the rentals therefrom except for operating expenses and repairs; required deposit of rentals in a special project bank account; and required that monthly reports be filed, furnishing certain prescribed information (Tr. 1085-90; GX 501). The requirements of this regulatory agreement, also binding by its terms upon purchasers, were discussed in detail with John Wagner and Christensen prior to GRR's purchase (Tr. 1123).

Following the purchase, the Hollywood Towne House became the headquarters for GRR's operations; GRR offices were set up, and prospective sellers of other properties were

given free overnight apartments (Tr. 1960). Contrary to the regulatory agreement, a program of advance discount rentals was instituted (GX 515-A, 515-B; Tr. 1142, 1634-37, 1358, 1365). From December 1965 to mid-March 1966, the period of GRR's occupancy, approximately $113,600 was received and partly deposited in personal bank accounts of the new owners (GX 59-A to 59-D). Most of these monies were spent by John Wagner, Christensen, and Jongeward for non-operating expenses, or converted to their personal use (Tr. 1653-62, 1673-78).[18] Reports were filed with F.H.A. which falsely reported the monies received from rentals and falsely omitted the disbursements made to John Wagner and Christensen (Tr. 1662-64; GX 535-D).[19] Checks drawn by GRR for the monthly installments on the mortgage were returned "NSF" (insufficient funds), and had to be replaced by checks of Prag and Spencer (Tr. 1302-1304). When Prag and Spencer complained about GRR's lack of ready finances, they were told by John Wagner that the Hollywood Towne House had been sold to a group of Southwestern investors who would make GRR's required mortgage payments (Tr. 1140, 1283; GX 512-A). Continuing default by GRR in meeting mortgage payments led to foreclosure on the Hollywood Towne House on March 16, 1966 (Tr. 1324-27, 1355). Prag and Spencer lost all equity in the building, and their interest in the Aloha Estates property was wiped out by foreclosure of the prior mortgage (Tr. 1244).

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[18] Funds converted into cashier's checks and then to American Express traveler's checks were transported in interstate commerce and expended at such places as New Orleans, Jamaica, and Hialeah, Florida (Tr. 1665-68). Other funds were disbursed by John Wagner for star sapphire jewelry in Palm Springs and a platinum diamond ring in San Francisco (GX 568-A, 568-B, 556-A to 556-C; Tr. 1290-92). These activities constitute the basis of Counts XVI and XVII of the indictment.

[19] This device constituted part of the basis of Counts XIV and XV of the indictment.

*Lou Peg Escrow*

Also during December 1965, Christensen had written Charles Voight, whose company held the first mortgage on the Aloha Estates, that he and GRR "had just signed up a group of investors in Phoenix interested in developing this [Aloha Estates] project to provide them with a tax shelter" and that escrow instructions would be forthcoming (GX 297-E; Tr. 1929). This phase of the GRR group's activities involved a "sham" sale in Scottsdale, Arizona in November 1965 between John Wagner and Peter Unger, the "professional investors from the Southwest." An escrow was set up whereby GRR was to deliver to a corporation called Lou Peg all of the stock of Hollywood Towne House in exchange for $750,000, with $250,000 in cash and the balance in titles to 48 Paonessa Tract parcels (GX 71-A; Tr. 1380, 1391). Peter Unger, who was President of Lou Peg, admitted that it was a shell corporation, and that he was to buy the Hollywood Towne Touse "with nothing" (Tr. 2401, 2438). The escrow never closed.

*Langston Property*

At about this time, Peter Unger and John Wagner answered a newspaper advertisement of Dorothy Shackelford Dill,[20] a Phoenix real estate broker, offering John Langston's residence for sale. Peter Unger, representing that he was setting up an operation in Phoenix for Lou Peg, made an offer to purchase the residence with two Elko trust deeds on which John Wagner was the obligor (Tr. 807). Peter Unger also described John Wagner as a very wealthy man with extensive real estate holdings, and showed Dill a GRR financial statement and pictures of properties purportedly owned. He stated that the Elko property was "selling good" and that John Wagner's payments were current, as evidenced by a schedule showing $30.00 monthly payments on each promissory note (Tr. 809). The Langston transaction was placed in escrow

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[20] Dorothy Shackelford Dill was the count witness in Count XIII of the indictment.

with the understanding that Peter Unger would obtain a new mortgage loan on the equity in the house, and that the $6,000 balance would be paid in Elko trust deeds (GX 73-A, 117-C, 117-D). These trust deeds, originally issued by Golden Rule to John Wagner, were assigned by him to Peter Unger, who then assigned them to Langston. After obtaining a Dun & Bradstreet report on GRR and the GRR financial statement, Langston agreed to accept the deal (Tr. 796). Peter Unger immediately set up a second escrow, and resold the Langston residence to Christensen for $24,000. In a "milking" operation, Christensen borrowed $20,000 on the residence from a bank, and after paying the mortgage and $4,000 to Langston, disbursed the balance to Peter Unger, and rented the house for $160 a month. Payments on the mortgage were not made, resulting in foreclosure (Tr. 813). No payments were ever received by Langston on the trust deeds; when he called GRR, Jongeward told him "It's none of your damn business" (Tr. 800). After Langston made three telephone calls to him, Peter Unger finally admitted that the trust deeds were no good, and laughed and hung up when Langston called him a "con man" (Tr. 801). Peter Unger admitted that Christensen was just a "straw man" in the deal and that the plan was to split the profits on the transaction (Tr. 2441). He also admitted that he offered a second trust deed on the Langston home to a Hawaiian investor who was threatening to sue him for failing to complete the purchase of his home in Hawaii (Tr. 1066).

### *Hollywood Towne House Revisited*

Shortly before the foreclosure on the Hollywood Towne House in March 1966, Robert Wagner appeared in Portland and claimed he had purchased the Hollywood Towne House on behalf of a group of Hawaiian investors (Tr. 1412). He had an escrow set up for this purported purchase with a company which he and his attorney had incorporated in Hawaii a few weeks before (GX 547-A; Tr. 1423-24). He furnished an apartment for himself and took over management of the apartments (Tr. 1400). He

then met with Pederson, the F.H.A. representative and with Commonwealth, Inc., a Portland investment bank which later was appointed receiver in the foreclosure proceeding, from which he was seeking financial assistance in his take-over of the Hollywood Towne House (Tr. 1398). At these meetings, he produced minutes of a December 14, 1965 meeting of the Hollywood Town House directors showing his election as president and his wife's election as vice president, and submitted a personal financial statement showing a personal net worth in excess of $1 million (GX 548-B, 546-A). Following the familiar practice of the GRR group, Robert Wagner falsely listed as a personal asset $32,500 "cash in escrow" which actually belonged to purchasers of lots; and falsely listed under his schedule of real estate assets, Kona Sea View Lots, at a value of approximately $500,000, which properties he did not own and which were in any event, subject to mortgages of $395,000 that were not listed under his liabilities (Tr. 1416-18, 2554). In addition, he falsely included as assets, under the schedule of notes receivable, a $7,400 note secured by a trust deed, which Robert Wagner admitted had been "loaned" to him by John Wagner; a $20,000 trust deed executed by Stewart on Ruby View Trailer Estates in Elko; and a $3,750 note and trust deed executed by Peter Unger on Rupard Tract parcels (Tr. 2558-59). Robert Wagner's attempt to so acquire the Hollywood Towne House was unsuccessful. Nevertheless, he continued actively to participate in the activities of the GRR group.

### H. Other Activities in Oregon

The GRR group continued to distribute patently false financial statements from its center of operations in the Hollywood Towne House in Portland during 1965 and 1966.[21] It was during this period that Dixie Vilks and

[21] John Wagner and Christensen's dealings with Ralph Perry, an escrow agent in Portland, reveal the GRR group's use of fraudulent financial statements and the trust deeds executed on Elsinore and Elko properties. Perry questioned them regarding their various business activities after he received GRR's financial statement and was told by John Wagner and Christensen that they bought and developed the Elsinore properties, and had built many fine homes

Harry Trip, another Portland realtor who became a GRR "field agent," were active in "finding" real estate deals for John Wagner, Christensen and Jongeward to transact in the name of GRR. While several of these deals were unsuccessful, many new acquisitions were consummated by the GRR group thereby providing them with more "assets" to further inflate their financial statements, and with more opportunities to convert the income and other revenues of the properties to their own personal use.

### *Barkdoll Property*

In August 1965, a 25-acre tract in the Portland area was purchased from Dr. George Barkdoll [22] for approximately $82,000. The consideration given Barkdoll consisted of $37,000 in GRR notes; $35,000 in trust deeds executed by Stewart on Elko properties (GX 56-L, 56-M); a $7,500 trust deed executed by Peter Unger on the Paonessa Tract (GX 56-J); and a $2,700 trust deed executed by Cristall on the Evans Tract (GX 56-J to 56-M; Tr. 654). Barkdoll was shown sample trust deeds indicating current payments. GRR did make two payments for December 1965 and January 1966 on its notes in order to forestall suspicion; but it and the other obligors, Peter Unger, Stewart and Cristall, made no other payments, and never answered Barkdoll's letters notifying them of default in subsequent payments (Tr. 663-69).

### *Associated Thrift Motels*

Coincident with its purchase, GRR used the Barkdoll property as a down payment in its acquisition of two Portland motels from Associated Thrift at a total price of $380,500 (GX 53-A). Monthly payments of $1,055 and

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there; that Peter Unger had issued a large number of trust deeds because he was building many homes there; that payments not shown on the trust deeds had been received in GRR's San Francisco office but had not been recorded yet; and that the Elko property was fully developed, with concrete slabs poured and utilities installed (Tr. 1751-53).

[22] Dr. Barkdoll was a count witness in Count II of the indictment.

$1,365 on the two purchase money mortgages on the motels were never made; and operating expenses such as power, water and laundry were never paid (GX 2-L, 2-W; Tr. 1727, 1733). In addition, rentals of $16,000 to $17,000 were siphoned off during the two and one-half month period before GRR was ousted by foreclosure.

### *Drake Property*

In September 1965, Claude Drake [23] received an offer to purchase his 96-acre rock quarry in the Portland area from GRR through Trip, with whom Drake had listed the property for sale. After obtaining a GRR financial report, Drake agreed to sell his property for $30,000, with payment by GRR's corporate note and purchase money mortgage (GX 57-D, Tr. 1459.) GRR made no payments on its notes, but did list the property on its November 1, 1965 balance sheet at the incredible valuation of $150,000, without showing any liability for the $30,000 purchase price (GX 160-C; Tr. 1461-63).

### *Sharer Property*

Elmer Sharer,[24] the owner of 1036 acres of farm land near McMinnville, Oregon, received an offer for his property from John Wagner and Christensen, who agreed to purchase it on behalf of GRR for $200,000 and payment of back taxes (Tr. 1569). Documents were mailed to Sharer's attorney and an escrow was set up (GX 277-A, 3-A to 3-H; Tr. 1571). However, the escrow did not close due to GRR's non-performance of the agreement (Tr. 1573). Nevertheless, as with the Drake and other properties, GRR listed the Sharer property on its November 1, 1965 balance sheet at the fantastic valuation of $2 million and therein described it as including "proposed 2211 residential lots now under construction" (GX 59-B, 160-C;

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[23] Claude Drake was a count witness in Count VIII of the indictment.

[24] Elmer Sharer was a count witness in Count VI of the indictment.

Tr. 1576). In addition, this balance sheet listed a non-existent 52-unit motel in McMinnville at a value of $600,000 (Tr. 1582-83).

*Gay Apartments*

Again using Vilks and Trip, GRR made offers to Ralph Gay to purchase four apartments: the Alameda Court for $155,000; the Jarrett Street Apartments for $79,000; the Golf View Apartments for $800,000; and the Westmore Arms for $300,000 (Tr. 687-89). Eventually, GRR acquired the Jarrett Steet, Alameda and Golf View properties, taking possession about January 1, 1966. In addition to assuming the existing mortgages on the properties, GRR gave Gay its purchase money notes, a second mortgage on the Drake quarry, and four $20,000 trust deeds issued by Stewart on the Ruby View Trailer Estates in Elko, payments on which were misrepresented as current (GX 144-E, 144-F, 144-G, 362-A; Tr. 692-96, 700-707). Payments on the assumed mortgages were never made; water and utility bills were left unpaid; and no payments were made on the trust deeds. From January through March 1966 GRR milked the properties, taking approximately $640 a month from Jarrett Street, $1200 a month from Alameda and $8,700 from Golf View (Tr. 709). Gay lost the Jarrett Street Apartments through foreclosure, but avoided the loss of the Alameda and Golf View properties by making up approximately $6,000 in defaulted payments. When Gay was in the process of recovering the Golf View, Robert Wagner appeared and offered to take over GRR's position, but no deal was consummated (Tr. 719-22).

*Kappel Valley Ranch*

In August 1965, Walter Koohtin received GRR's $840,000 purchase offer from a Portland realtor for the Kappel Valley Ranch in Napa County, California (GX 158-C). A $200,000 cash down payment was to be arranged through Kosieris (Tr. 1612). Although Koohtin received reassuring letters from GRR and Kosieris, and Kosieris was paid a $2,500 fee for funding the loan, no loan materialized and

the sale did not take place (GX 158-N, 158-Q, 158-V, 158-X; Tr. 1615-21). However, GRR listed this property on its financial statement of November 1, 1965 as an asset at the inflated valuation of $3.2 million (GX 160-C).[25]

### *Dick Property*

In February 1966, rancher Rex Dick and his wife, of John Day, Oregon, were invited to the "plush" office suite of GRR in the Hollywood Towne House,[26] where they were falsely told by John Wagner and Christensen that their large California corporation was buying up ranch lands to be used to pasture the cattle of the Ralston Purina Company (Tr. 1957, 1962, 1972, 1980-81). Without hesitation, John Wagner and Christensen met Dick's asking price for his ranch of $185,000 (Tr. 1963).[27] Dick also sold them approximately 180 head of cattle, at $200 a head. This herd was mortgaged to the Bank of Eastern Oregon for approximately $33,000. John Wagner falsely represented to Dick that he had been told by the Ralston Purina people that the land had to be free of all cattle for 30 days and then stand inspection before Ralston Purina cattle would be brought in (Tr. 1982). John Wagner and Christensen, again misrepresenting that Ralston Purina required the cattle to be sold to clear the land, sought to have the bank permit them to assume Dick's outstanding mortgage loan and grant them a 90-day payment deferment (Tr. 1984). But the bank refused the deal, even

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[25] The property also appeared on a revised financial statement furnished to Dun & Bradstreet in February 1966 at the valuation of $1 million with a liability of only $400,000 shown (GX 160-D).

[26] During their Portland stay, the Dicks were provided with a luxury apartment in the Hollywood Towne House, offered a Cadillac for their driving convenience, and were wined and dined at a fashionable Portland restaurant (Tr. 1960-63).

[27] GRR refinanced a mortgage to Dick's brother by giving him a GRR note and mortgage for $86,000 (GX 155-A, 155-B, 155-C, 155-E; Tr. 1968). Dick himself was hired as "coordinator of ranches" at a never-paid salary of $600 a month, and was directed to plow up part of the acreage to plant alfalfa (Tr. 1970).

after it received the GRR financial statement it had requested (GX 157-A, 584-I; Tr. 1986). Despite the bank's refusal, GRR sold the Dick cattle to Carl Christianson, who also was told the Ralston Purina fabrication, and received Christianson's $17,500 check in part payment (GX 584-A, 584-G to 584-I; Tr. 1994). When the bank learned of this sale, it refused to permit the cattle to be moved (Tr. 1988). Christianson attempted to stop payment on his check, but it had been certified and then converted to cashier's checks by John Wagner and Christensen (GX 584-A). These cashier's checks were then taken to Los Angeles and turned over to GRR's attorney, Robert Bunnett. Shortly thereafter Bunnett converted the old checks into new cashier's checks which were then paid in part to John Wagner, and in part to Bunnett himself for past legal fees (Tr. 2009, 2115-18). Through all these machinations, Christianson despite reassures by both Christensen and John Wagner that the matter would be straightened out, lost his $17,500.

### *Foster Properties*

As a result of a meeting arranged by a realtor with John Wagner at the Hollywood Towne House, rancher William Foster, also of John Day, Oregon, was offered a total of $757,000, with a $17,000 cash down payment, for his two ranches totaling approximately 30,000 acres in central Oregon (Tr. 2048-49). An escrow was set up, and Foster mailed the deeds in for recording (GX 193-C, 65-B, 65-C; Tr. 2057). The sale was not effected because the $17,000 down payment was never made (Tr. 2052). However, following the recurrent pattern, GRR listed the Foster ranches as assets on its financial statement of February 28, 1966, at a valuation of $1,425,000, with the notation, "Now leased for interest payment plus percentage of profits" (GX 160-D).[28]

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[28] William Foster was a count witness in Counts III and X of the indictment.

### *Smith Property*

With their flagrantly false financial statements, the GRR group, in early 1966, made repeated attempts to acquire the Fontaine, an 88-unit luxury high-rise apartment building in Portland, offering its owner Richard Smith GRR notes in payment (Tr. 1706-1707; GX 62-I). The personal balance sheets Smith was given represented that John Wagner had assets of $2,306,000 and that Christensen had assets of $2,189,000 (GX 139-A; Tr. 1709); the GRR balance sheet for December 31, 1965 showed corporate net worth of $9,495,170, including a false entry of $200,000 cash in the Great Western Bank of Portland.[29] When Smith discovered the obvious falsity of this $200,000 entry, he refused to consider the offers.[30]

### *Haney Properties*

In November 1965, Ralph Haney, after reviewing a GRR financial statement, sold two income-producing duplexes to GRR in exchange for a $7500 promissory note secured by a trust deed executed by Peter Unger to John Wagner on a Paonessa Tract parcel in January 1965, and other consideration. Christensen had represented to Haney that Peter Unger was a well-to-do real estate investor (Tr. 1512). When Haney discovered that Peter

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[29] John Wagner and Christensen had applied at the Great Western Bank for a $200,000 passbook loan, an arrangement whereby the bank lends money which then is deposited in a savings account from which it cannot be withdrawn until the loan is repaid. The Bank did not grant the loan because it suspected that the arrangement was planned merely as a "window dressing" scheme. The bank officials later discovered that GRR listed this $200,000 "cash in Great Western Bank" on a draft of a financial statement prepared for GRR by a Portland certified public accountant, and also received several inquiries about the non-existent deposit from banks in Hawaii, Washington and California (GX 60-B, 146-A; Tr. 1430-35).

[30] The GRR balance sheet for December 31, 1965 was also used in unsuccessful attempts to acquire a 24-story high-rise apartment building in Portland from Will Fromme (GX 169-D; Tr. 1717), and another large apartment building in Boise, Idaho through a realtor in Ontario, Oregon (Tr. 1476).

Unger's note and trust deed had already been assigned to others,[31] Christensen simply provided him with another $7500 note secured by a trust deed (GX 248-E). When Haney again complained that this paper also had already been assigned to others, Jongeward produced from his briefcase of worthless securities yet another $7500 note secured by a trust deed (GX 248-F; Tr. 1513). When the latest trust deed proved defective in description, Haney prepared a new trust deed to be signed jointly by Peter Unger and John Wagner and gave it to Christensen for forwarding (Tr. 1516). In response to a telephone call from Peter Unger in Las Vegas, Haney wrote to Peter Unger about the necessary corrections they had discussed, and received in reply a letter with a notation on the bottom: "I will be happy cooperate send papers any time Pete, P. O. Box 290, Las Vegas, Nevada" (GX 248-L). Haney wrote to Peter Unger again, explaining the difficulty; he enclosed another trust deed for his signature and suggested that he call collect if he had further questions (GX 248-M). Haney never received any answer.

### I. GRR Activities in Salt Lake City, Utah and Pueblo, Colorado

During the period from January to March 1966, the GRR group expanded their activities to Utah and Colorado. It was during this period that Robert Wagner appeared in Portland and actively participated as a "finder" for the GRR group.

#### *Mooney Transaction*

In February 1966, Robert Wagner telephoned Jerome Mooney, a Salt Lake City real estate broker whom he had met in Hawaii, and told him that his group, known as GRR Development Co., would be interested in purchasing the Las Vegas apartment complex Mooney had listed for

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[31] The trust deed and note appear to have been part of the consideration tendered to Smith in the unsuccessful attempt to acquire his resort motel in Oceano, California in January 1965. See Part C, *supra*.

sale (Tr. 1445). Shortly thereafter, at a meeting with Mooney and the building owners in Las Vegas, John Wagner and Robert Wagner, representing GRR as worth $10 million to $15 million, made a proposal to purchase the apartment for $250,000 in GRR notes with no cash down payment (Tr. 1442). During one of the several meetings concerning this transaction between John Wagner, Robert Wagner and Mooney in Salt Lake City during March 1966, John Wagner falsely announced that GRR had just acquired the Mark Hopkins Hotel in San Francisco from Gene Autry (Tr. 1443). In addition to the proposal to purchase the Las Vegas apartment complex, Mooney received eight other offers from GRR, totaling about $1 million, to purchase other properties he listed; not one of these other offers involved cash down payments. None of the deals GRR proposed to Mooney were ever consummated.

***Jacobs Transaction***

Also in February 1966, Donald Jacobs, a Salt Lake City contractor who had advertised his 68-unit apartment building, known as the Irving Heights, for sale in the Wall Street Journal, received a long distance telephone call from Jongeward who offered to buy the building sight unseen. Shortly thereafter, in a writing confirming the telephone call, GRR offered to purchase the building for $1,200,000, the appraised value, by giving GRR notes in payment with no cash down, even though no one from GRR had yet seen the property (Tr. 1497). Jacobs requested and received a financial statement of GRR, which was accompanied by a February 28, 1966 letter to Dun & Bradstreet which purported to bring that institution "up to the 31st of December" (GX 150-A, 150-B). To his amazement, Jacobs discovered that GRR had listed his Irving Heights apartment as "in escrow" at the inflated price of $1,400,000—$200,000 more than the asking price (Tr. 1499). Jacobs also discovered that GRR had listed the Elko property on the same financial statement at a value of $1000 a lot, a total of $374,000, when his inspection had revealed that

the property was located one-half mile from the main highway, approachable only by a dirt road, and was encumbered by mortgage and trust deeds (Tr. 1502). As a result, GRR's offer to purchase Jacob's Irving Heights apartment was never completed.

***Puebloan Motor Inn***

The GRR group's activities also reached to Pueblo, Colorado when in February 1966, through an initial contact by a local real estate broker, GRR offered to purchase Lloyd Dishion's Puebloan Motor Inn. The Small Business Administration (S.B.A.) held a $326,000 mortgage on the property; and Dishion's mortgage payments were current. Dishion was furnished with a financial statement of GRR which showed assets in excess of $14 million (Tr. 1833). Jongeward, accompanied by Kosieris, who was introduced as a "mortgage banker from California," offered to purchase the property by giving only GRR notes in payment, but Dishion was unwilling to accept the "no cash" terms (Tr. 1836). Dishion finally agreed to consummate the transaction when Jongeward and Kosieris assured him that they would arrange either a cash down payment or a loan on the GRR notes. GRR took over the Inn on February 28, 1966 (Tr. 1837-50). In another "milking" operation, the gross daily collections of $400 to $600 were sent to GRR in San Francisco by Western Union or Air Express; no payments were made on the mortgage held by the S.B.A., or to creditors whose accounts had been assumed by GRR, or to employees; and the telephone service was disconnected for non-payment of bills and the bar closed for non-payment of state taxes (Tr. 1883, 1894, 1901, 1914, 1919). Finally, at the time when foreclosure by the S.B.A. was imminent, Kosieris advised Dishion that he had just heard that the Hollywood Towne House had been foreclosed and that "his people," therefore, would not proceed with the loan arrangement on the GRR notes which Dishion had received in payment for the Inn (Tr. 1908-11, 1853). It was at this time, too, that Robert Wagner appeared in Pueblo to reassure Dishion that the mat-

ter would be straightened out with the S.B.A., and to assure the S.B.A. that something was "in the mill" to take care of the situation (Tr. 1856-59, 1898, 1916). Nevertheless, the S.B.A. did foreclose, and Dishion received nothing on the worthless GRR notes. Robert Wagner moved on with the other defendants to Las Vegas, where the next phase of GRR's operations shifted.

### J. GRR Moves to Las Vegas—Enter Pioneer Mortgage Bankers

Peter Unger, after his departure from Hawaii and Aloha Estates, set up business in Las Vegas as a realtor, often acting as GRR's representative. Pioneer Mortgage Bankers Corporation (Pioneer) soon became another GRR acquisition, and thereafter the primary vehicle for carrying on the group's activities at an even more accelerated pace.

#### *Champion Oaks Apartments*

At about the time he moved to Las Vegas, Peter Unger was involved in another GRR acquisition handled by Jongeward in Roseville, California. Jongeward, representing GRR, and Ruth Chesney, a real estate broker, entered into an agreement for the sale to GRR of six four-unit dwellings known as the Champion Oaks Apartments for $189,000, with GRR's consideration consisting of its assumption of the $155,000 mortgage and its issuing promissory notes for the balance of the purchase price (GX 222-G; Tr. 2024). Jongeward had furnished Chesney with GRR financial statements showing gross corporate assets of $14 million, and a "revised" financial statement submitted to Dun & Bradstreet showing assets of $10 million (GX 222-B, 222-C, 222-J; Tr. 2022). Within three days after the sale, and before the deed to GRR was even recorded, the property was shunted by conveyance to Peter Unger. Chesney was notified of the change by Pioneer (GX 222-M, 222-Z; Tr. 2025-26). Peter Unger did not make any payments on the mortgage and never answered Chesney's letters; and GRR never made any payments on its promissory notes (Tr. 2033, 2037-38; GX 222-N).

### *Acquisition of Pioneer Mortgage Bankers*

While in Las Vegas, Peter Unger who was using GRR as a credit reference, introduced John Wagner to Lee Potter a Las Vegas mortgage banker whose Pioneer Mortgage Bankers and Princess Homes, Inc. corporations held substantial real estate and mortgage receivables. Representing GRR as a large real estate holding company which acquired large parcels of real estate, John Wagner told Potter that GRR was interested in anything he had to offer. Potter requested and received a November 1, 1965 financial statement of GRR and a March 23, 1966 Dun & Bradstreet report on GRR (GX 172-A, 172-B). The financial report of GRR, showing gross assets in excess of $14 million, falsely listed the Hollywood Towne House at an appraised value of $3,400,000, with yearly gross rentals of $360,000, despite the filing of foreclosure proceedings on March 17, 1966. This financial report also included as other major assets the following worthless, foreclosed or never-acquired properties: 326 Lots, Ruby View Estates, Elko, Nevada, 2d Deed of Trust—$326,000; 20 1st Trust Deeds on Elsinore Land Agency Tract (Stewart)—$400,000; assignment of Lease from Lou Peg Corp.—$600,000; 1036 Acres at McMinnville, Oregon (Sharer)—$2,000,000; 374 Lots, Ruby View Estates—$374,000; and 163 Lots known as Aloha Estates (Unit 1)—$750,000.

In May 1966, Potter agreed to sell his stock in the Pioneer Mortgage Bankers and Princess Homes, Inc. corporations to GRR at a price of $737,000 in consideration for GRR's promissory notes secured by trust deeds, and GRR's assumption of existing mortgages (GX 172-C to 172-H, 172-U). When GRR defaulted on its assumed mortgage payments and on the payment of its other obligations to Potter, the properties held by Potter's two corporations were foreclosed and he lost his equities therein (Tr. 1793, 1797).

Following the acquisition of Pioneer, John Wagner, Christensen, Jongeward and Robert Wagner, who was also

authorized to make offers on its behalf, were elected directors of the corporation, and thereafter the group continued its activities from its new base of operations in Las Vegas, under a new corporate name free from the stigma of the Hollywood Towne House foreclosure. A new financial statement of Pioneer containing false "paper" assets was put together showing $7,200,650 in "Real Estate Owned," including as major assets the Foster Ranch in Oregon at a value of $1,470,000; 174 Ruby View Trailer Estates lots at a value of $348,000; 150 Elsinore lots at a value of $450,000; and the real estate and mortgage receivables just acquired from Potter at values of approximately $2 million and $700,000, respectively (GX 172-SS; Tr. 1795). This Pioneer financial statement also listed an item of $250,226 "Cash at State and Federal Banks," which was the successful result of a tactic using the Crocker Citizens Bank in South Gate, Calif. that had been unsuccessfully attempted earlier at the Great Western Bank in Portland.[32] In this situation, John Wagner applied for a $200,000 bank loan which the Crocker Citizens Bank granted upon condition that the monies be converted immediately into a certificate of deposit to be held by the bank as collateral for the loan (Tr. 1941). There was never any disclosure of this offsetting liability or of the frozen status of the deposit that provided the basis for the "Cash at State and Federal Banks" asset listed on the frequently used financial statement of Pioneer (Tr. 1942).

***France Transaction***

In July or August 1966, representing himself as an agent interested in buying property for Pioneer in Las Vegas, Robert Wagner contacted real estate broker Terry France in Tarzana, California. He told France that he could make down payments with promissory notes and trust deeds rather than using cash, and offered to purchase a residence for himself and a tract of undeveloped land for

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[32] See Part H, *supra*.

Pioneer in Hidden Hills, California for $69,500 and $712,-500, respectively, with payment for the latter to be by Pioneer's promissory notes (Tr. 1946-48; GX 97-A, 97-B). Robert Wagner than submitted a financial statement of Pioneer and orally represented that Pioneer was a substantial and reputable business concern with assets that included trust deeds, hotels, motels and other properties in Hawaii and along the Pacific Coast (GX 97-F; Tr. 1949). When France requested validation of the financial statements, Robert Wagner gave him a covering sheet containing a certification signed by Robert Johnson, purportedly a certified public accountant, which verified the valuation of the assets listed in the statement (GX 97-E; Tr. 1950). In fact, Johnson was not an accountant and the "certificate" had been dictated by Jongeward (Tr. 1768).

### *Olden Property*

Earl Olden, owner of a 40-unit motel, including a dwelling house, restaurant and swimming pool, answered Pioneer's newspaper advertisement and after examining a Pioneer financial statement, entered into an agreement to sell his property for Pioneer's $50,000 promissory note, with no cash involved, and the assumption of all obligations on the property (GX 164-A, 164-C, 164-D; Tr. 1755-57). Pioneer, immediately taking possession and collecting the daily rentals, failed to make any payments on the mortgage or other obligations, resulting in foreclosure and Oldens' loss of his motel property (Tr. 1758-59).

### *The Albuquerque Hilton*

In August 1966, advertisements were placed by Pioneer in the Wall Street Journal for the purchase and sale of investment properties, mortgages and other real estate (GX 63-A, 63-B; Tr. 1923).[33] Thereafter, negotiations for the Albuquerque Hilton in Albuquerque, New Mexico,

[33] The dissemination of these advertisement to subscribers of the Pacific Coast Edition of the Wall Street Journal forms the basis of Count IX in the indictment.

began when defendant Shubin, representing Pioneer, telephoned Charles Cole, manager of the Albuquerque Hilton, and inquired about arranging the sale of the hotel. John Wagner accompanied by his attorney Robert Bunnett, then flew to Albuquerque and gave Cole a May 1966 Pioneer financial statement showing assets of approximately $8,500,000 (GX 374-A). In keeping with his purported practice "to make deals fast," John Wagner signed an agreement that very same day for the sale of the hotel to Pioneer in return for Pioneer's assumption of all existing obligations and its allowing Cole to collect about $55,000 in receivables (Tr. 2063-65; GX 202-O). The following week, Robert Wagner arrived in Albuquerque as the hotel's new manager, installed himself in a hotel suite, and paid himself $50.00 a day plus meals (Tr. 2066). He announced that he was Pioneer's "trouble shooter," and explained that he and John Wagner "wore the airplanes out going back and forth on deals" (Tr. 2066, 2068). He told Cole "he was going to buy a lot of things" in Albuquerque, and after Cole introduced him to Leonard Ginn, a local realtor, Robert Wagner made several offers to Ginn on behalf of Pioneer (Tr. 2608, 2616). While "managing" the hotel, Robert Wagner received mail containing remittances and daily cash receipts estimated to total $2000 to $2500 daily, which for the most part were then funneled through him to Pioneer in Las Vegas (GX 166-A, 166-B). The hotel's operating expenses and other obligations were not paid and Robert Wagner directed that creditors be put off (Tr. 2084-90).

### *The El Paso Hotel*

In an attempt to acquire the El Paso Hotel from the Hilton chain for $1,200,000, John Wagner and Jongeward flew to El Paso, Texas, and met with Hilton executive Spearl Ellison (Tr. 1807). Ellison was not impressed with the May 1966 financial statement of Pioneer, showing assets of approximately $8,500,000 (GX 96-A), and demanded that they meet the obligations Pioneer had assumed on the Albuquerque Hilton. After John Wagner

and Jongeward made some excuse, Ellison evicted them from the Albuquerque hotel (Tr. 1810).

### K. The SEC Injunction

On September 9, 1966, the Securities and Exchange Commission filed a civil injunctive action in the United States District Court for the District of Oregon against the corporate defendants and several of the other defendants in the criminal trial, including John Wagner, seeking to enjoin the continuance of the fraudulent course of conduct described above.

## ARGUMENT

### POINT ONE

**The Jury Verdicts Convicting Robert Wagner and Peter Unger are Supported by Substantial Evidence**

Robert Wagner and Peter Unger specifically raise the issue of whether there was sufficient evidence in the record to support their convictions on Count I of the indictment. (R.W. Br. Pt. IV C; P.U. Br. Pt. VI.)[1] Both Peter Unger and Robert Wagner concede that John Wagner and other defendants were engaged in a scheme to defraud. But Peter Unger claims that he was not a participant in any illegal transactions and that he had no control over the illegal activities of John Wagner and the other defendants; and Robert Wagner contends that he was an innocent victim of the fraudulent scheme.

This Court has held that the proper test at the appellate level for determining whether there is sufficient evidence in the record to support the jury's guilty verdicts is to determine whether, taking the view most favorable to the government and without weighing conflicting evidence or testing the credibility of witnesses, there is substantial evidence to support the verdicts. *Remner* v. *United States*,

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[1] Robert Wagner's Brief on Appeal will be referred to as, "R.W. Br."; Peter Unger's Brief as "P.U. Br." and John Wagner's Brief as "J.W. Br."

205 F.2d 277 (C.A. 9, 1953). *See also Isaacs* v. *United States*, 301 F.2d 706, 713 (C.A. 8, 1962), *cert. denied*, 371 U.S. 818; *Cartwright* v. *United States*, 335 F.2d 919, 921 (C.A. 10, 1964); *Davenport* v. *United States*, 260 F.2d 591, 598 (C.A. 9, 1958), *cert. denied*, 359 U.S. 909 (1959). Furthermore, circumstantial evidence, coupled with the reasonable inferences based thereon, is sufficient to sustain the convictions. *Holland* v. *United States*, 348 U.S. 121 (1954); *United States* v. *Brown*, 236 F.2d 403, 405 (C.A. 2, 1956). Also, in appraising the sufficiency of the evidence to justify an inference of fraudulent intent or bad purpose, the evidence must be viewed in its most favorable light to the government. *Elbel* v. *United States*, 364 F.2d 127 (C.A. 10, 1966), *cert. denied*, 385 U.S. 1014. Criminal intent may be inferred from the conduct of the defendants, and circumstantial evidence, upon which reasonable inferences may be based, is sufficient. *Swallow* v. *United States*, 307 F.2d 81 (C.A. 10, 1963), *cert. denied*, 371 U.S. 950.

Therefore, it was not incumbent on the prosecution to prove that John Wagner, Peter Unger and Robert Wagner entered into a formal agreement that constituted an unlawful conspiracy. Conspiracies by their very nature are secret and clandestine, and are seldom susceptible to proof by direct evidence. Proof of participation in a conspiracy is sufficient if a common purpose and plan "may be inferred from a development and a collocation of circumstances." *Glasser* v. *United States*, 315 U.S. 60, 80 (1942); *Pereira* v. *United States*, 347 U.S. 1, 12 (1954); *Isaacs* v. *United States*, 301 F.2d 706, 725 (C.A. 8, 1962), *cert. denied*, 371 U.S. 818. Whether Peter Unger and Robert Wagner intentionally associated themselves with the conspiracy or scheme masterminded by John Wagner to defraud the victims in this case was a question of fact properly referred to the jury for its decision. *Wall* v. *United States*, 384 F.2d 758 (C.A. 10, 1967); *Beck* v. *United States*, 305 F.2d 595 (C.A. 10, 1962), *cert. denied sub nom.*, *Tuthill* v. *United States*, 371 U.S. 895.

Peter Unger attempts to exculpate himself from the conspiracy charged in Count I by arguing that he did not personally deal with the defrauded victims, and that although he issued and delivered notes and trust deeds to John Wagner and other of the defendants, he was not present when such "paper" was exchanged with the defrauded victims for their property interests. The facts in the record belie Unger's protestations of nonparticipation and lack of contact with the victims. However, even assuming arguendo that Peter Unger did not have contact with the victims, he still would be criminally liable for participating in the conspiracy since he was aware of the scheme, and performed functions and acts necessary for the accomplishment of its illegal purposes; and therefore would be responsible for all of the acts performed by his co-conspirators in furtherance of the conspiracy during the period when he was a member of the illegal scheme. *Della Paoli* v. *United States*, 352 U.S. 232 (1957); *Blumenthal* v. *United States*, 332 U.S. 539 (1947); *Enriquez* v. *United States*, 338 F.2d 165 (C.A. 9, 1964); *Feyrer* v. *United States*, 314 F.2d 110 (C.A. 9, 1963).

Peter Unger and John Wagner were central or core conspirators who formulated the scheme, and thereafter directed the implementation of virtually every aspect of the scheme to build a real estate empire with worthless paper. Peter Unger was a participant in the scheme at its inception in early 1963, when he and John Wagner began to generate worthless paper in the village of Elsinore, California,[2] and continued to play an active role as the scheme blazed its path through California,[3] Oregon,[4] Hawaii,[5] Ari-

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[2] Paonessa, Rupard and Evans tracts, Part A, counter statement of case.

[3] Lishner and Harris properties, Parts B and C, counter statement of case.

[4] Hollywood Towne House, Part G, counter statement of case.

[5] Aloha Estates and Michael properties, Part F, counter statement of case.

zona,[6] and Nevada.[7] Peter Unger, in concert with John Wagner, performed a crucial function in the scheme by directly creating an inventory of worthless notes and trust deeds which was inflated in value by the delusive shunting of the Paonessa, Rupard, Evans [8] and Elko [9] tracts and the Harris [10] properties to each other, their wives, and nominees. Peter Unger also held himself out to the persons to be defrauded as an agent of the GRR group,[11] and induced victims to rely upon GRR's fraudulent financial statements which reflected as assets the worthless paper he and John Wagner created.[12] He also advised victims that GRR had multi-million dollar assets.[13] In spite of his knowledge that John Wagner and other defendants were using worthless trust deeds and notes which he and John Wagner had issued, to make real estate acquisitions from the victims,[14] Peter Unger misrepresented to such persons that payments on the notes had been made and lulled such victims into believing that additional payments on those notes would be forthcoming in the future.[15] Contrary to Peter Unger's

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[6] Lou Peg escrow, Langston properties, Part G, counter statement of case.

[7] Ruby View and Elko properties, and Pioneer transactions, Parts D and J, counter statement of case.

[8] Part A of counter statement of case.

[9] Part D of counter statement of case.

[10] Part C of counter statement of case.

[11] *See, e.g.*, testimony of victim Langston (Tr. 793-805), and of victim Michael (Tr. 1056-68).

[12] *See, e.g.*, testimony of Dorthy Shackelford Dill (Tr. 809), and victim Langston (Tr. 796).

[13] *See, e.g.*, testimony of victim Michael (Tr. 1059).

[14] *E.g.*, Peter Unger subsequently admitted to victim Langston that the trust deeds were no good (Tr. 801), and also admitted that through the shell corporation Lou Peg, he was buying the Hollywood Towne House "with nothing" (Tr. 2401, 2438).

[15] *See, e.g.*, testimony of Dorothy Shackleford Dill (Tr. 806-17); of victim King (Tr. 1211); of victim Brown (Tr. 907-10, GX 288-A); of victim Michael (Tr. 1060-63).

assertion that he did not personally profit from the conspiracy alleged in Count I, and consequently had no stake in the illegal venture, the record is replete with evidence that he personally benefited from his participation in the scheme. Thus, he lived rent-free in the Beverly Hills house,[16] collected rents which were converted to his own personal use,[17] discounted trust deeds and other "papers" for cash,[18] and utilized cash income from properties for his own benefit.[19]

A similar review of the evidence adduced at the trial relating to the activities of Robert Wagner clearly establishes his participation in the scheme. Although he did not become associated with the other defendants charged in Count I until approximately May 1965, about two years after the inception of the scheme, he performed essential functions in the implementation of the scheme from at least December 1965 until the group's activities were halted by the SEC injunctive action in September 1966. Whether or not Robert Wagner may have been duped by John Wagner and Peter Unger at the outset, there can be no doubt that by December 1965 he wilfully and knowingly joined in with the others by utilizing worthless paper and falsely inflated financial statements to bilk the public.

Prior to his trip to the mainland in December 1965, Robert Wagner assisted GRR and John Wagner in accomplishing the exchange offer with the Hawaiian investors in Aloha Estates by misrepresenting to such investors that the Elsinore properties had substantial value and that payments on GRR's trust deeds and notes on these properties were current.[20] He created a facade that he was disinterested in the affairs of GRR and the other defendants, and,

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[16] Lishner property (Tr. 261).

[17] Lishner property (Tr. 261), Michael property (Tr. 1056-68).

[18] Harris properties (Tr. 2417), Langston properties (Tr. 813, 2441).

[19] Aloha Estates (Tr. 1001, 2495).

[20] *See* Part F of counter statement of case.

upon his return from the mainland, appeased the Hawaiian investors by acknowledging that the trust deeds were phonies and that the other defendants were "shysters." [21] Despite these statements to the Hawaiian investors, he proceeded thereafter to misappropriate, with Peter Unger, the proceeds from Aloha Estates; to consummate numerous real estate transactions in Hawaii with Peter Unger; [22] and to travel back to the mainland to participate in the scheme from February through September, 1966. Thus, in February and March 1966 he and John Wagner travelled together representing themselves as agents for GRR, purportedly a corporation with assets in excess of $10 million.[23] When foreclosure proceedings were imminent with respect to two of GRR's projects, the F.H.A. financed Hollywood Towne House of Portland and the S.B.A. financed Puebloan Motor Inn of Pueblo, Colorado, Robert Wagner attempted to forestall the foreclosure actions so that he and the other defendants could continue to "milk" the income from such properties for their own personal use.[24] In May 1966, Robert Wagner became a director of Pioneer, along with John Wagner and other defendants, and continued to seek real estate acquisitions for the group. After a falsely inflated financial statement showing assets of over $7 million was prepared for Pioneer, in July or August 1966, Robert Wagner utilized such financial statements in attempts to acquire further properties for himself and Pioneer.[25] After the group had

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[21] *See, e.g.*, testimony of victim Voight (Tr. 1931); see also, the February 16, 1966 letter from Robert Wagner to victim Oppenheim (Tr. 2573, GX 93-PP).

[22] For example, in January 1966 Robert Wagner and Peter Unger defrauded Michael in connection with the sale of his house in Hawaii. *See* Part F of counter statement of case. See also (Tr. 1059).

[23] Testimony of Jerome Mooney (Tr. 1440-47).

[24] Hollywood Towne House (Tr. 1398-1412); Puebloan Motor Inn (Tr. 1856-59, 1898, 1916).

[25] *See* France Transaction, Part J of counter statement of case, and testimony of France (Tr. 1945-52).

taken over the Albuquerque Hilton Hotel, he arrived on the scene as Pioneer's "trouble-shooter," became the group's manager of the hotel, and proceeded to siphon off the hotel's receipts to Pioneer and other defendants while stalling the hotel's creditors (Tr. 2066-68, 2084-90).

Furthermore, the facts that Robert Wagner may have been a late joiner in the conspiracy, or that he may not have been aware of the specific details or of all the machinations of John Wagner, Peter Unger, and the other defendants, do not exculpate him from criminal responsibility for the conspiracy charged in Count I,[26] since there was sufficient direct and circumstantial evidence in the record for the jury to find that Robert Wagner was aware of the essential nature of the illegal plan to defraud property holders of their real estate interests by obtaining such interests in exchange for worthless notes and trust deeds, that he knowingly associated himself with the other conspirators and their illegal scheme, and that he performed functions and contributed efforts in furtherance of such scheme. *See, e.g., Blumenthal* v. *United States*, 332 U.S. 539 (1947); *Hayes* v. *United States*, 329 F.2d 209 (C.A. 8, 1964). That the role of Robert Wagner in the conspiracy may have been subordinate is no defense. *Sabari* v. *United States*, 333 F.2d 1019, 1021 (C.A. 9, 1964).

It is submitted on the basis of the foregoing, that the evidence of guilt against Peter Unger and Robert Wagner is not only sufficient, but overwhelming.

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[26] Even if the arguments of Robert Wagner and Peter Unger of nonparticipation in every phase of the scheme were accepted, their reckless disregard and indifference as to whether the statements made to victims both orally and in writing were true or false, and their failure to disclose the worthlessness of the securities they peddled, constitute evidence from which the jury could infer that they had participated in the conspiracy charged in Count I. *See, e.g., Elbel* v. *United States*, 364 F.2d 127 (C.A. 10, 1966), *cert. denied*, 385 U.S. 1014.

## POINT TWO

**The Contentions of John Wagner and Robert Wagner That They Were Prejudiced by Being Tried and Convicted on an Indictment Charging Two Separate Conspiracies When Allegedly Only One Conspiracy, if any, Existed are Unfounded**

John Wagner contends that it was error for the trial court to have permitted him to be tried and convicted on two separate conspiracy counts when the evidence at trial allegedly established only one conspiracy, if it established any conspiracy at all (J.W. Br. Pt. F). The question of how many conspiracies are involved in a particular factual situation is simply answered: "[T]he precise nature and extent of the conspiracy must be determined by reference to the agreement which embraces and defines its objects." *Braverman* v. *United States*, 317 U.S. 49, 51 (1942). If a single agreement between conspirators exists, no matter how diverse the objects of that agreement, only one conspiracy exists. However, if conspirators enter into more than one agreement, then each separate agreement can constitute a separate conspiracy.

Of course, in resolving a single versus multiple conspiracy question, difficulty usually arises because it is seldom possible to show an express written agreement between conspirators. Conspiracy cases are frequently proven by means of circumstantial evidence, and it is difficult to ascertain from this type of evidence the precise scope and terms of a particular illegal agreement. This difficulty is compounded by the fact that at the time a conspiracy is formed, the conspirators themselves are not always aware of its precise scope, since conspiracies often develop in successive stages. *See, e.g., Blumenthal* v. *United States*, 332 U.S. 539 (1947). Therefore, whether one or several conspiracies existed, and the precise nature or scope of each are properly questions of fact for the jury —the trier of fact. *United States* v. *Dardi*, 330 F.2d 316 (C.A. 2, 1964), *cert. denied*, 379 U.S. 845; *United States* v. *Crosby*, 294 F.2d 928 (C.A. 2, 1961), *cert. denied sub*

*nom.*, *Mittelman* v. *United States*, 368 U.S. 984 (1962); *Mansfield* v. *United States*, 155 F.2d 952 (C.A. 5, 1946); see *Developments in the Law—Criminal Conspiracy*, 72 Harv.L.Rev. 920, 929-39 (1959); *Note, Federal Treatment of Multiple Conspiracies*, 57 Col.L.Rev. 387, 393 (1957).

It is submitted that the indictment clearly charged, and the jury found, that John Wagner had devised and masterminded an over-all scheme to defraud, and that in carrying out such scheme, he found it necessary to enter into two separate conspiracies, each with different objects, though some of the means were identical. In reaching its conclusions that two separate conspiracies existed and that John Wagner was a member of both, it is obvious that the jury concluded that some of the members of each conspiracy were different since it acquitted Robert Wagner of the Count XIV charge while it convicted him on the Count I charge. The principal object of the Count I conspiracy was to defraud owners of real estate and personal property by obtaining money and property from such victims through the fraudulent means of creating and exchanging worthless paper. In contrast, the principal object of the Count XIV conspiracy was to defraud the United States by concealing from governmental agencies the defendants' looting activities, and the interstate transportation of the fruits of their illegal activities, through the means of filing false written statements with such governmental agencies.

When the issue of single versus multiple conspiracies must be determined, if the evidence viewed in the light most favorable to the government is such that reasonable minds might differ "then the question becomes one of fact for the jury to resolve, and not one of law to be determined by the courts," particularly when the trial court has properly and fully instructed the jury on this issue. *See, e.g.*, *Isaacs* v. *United States*, 301 F.2d 706, 726 n.31, 727 (C.A. 8, 1962), *cert. denied*, 371 U.S. 818. It is important to determine whether the jury was given adequate instructions in this regard in the case at bar. *Cf. United States* v. *Kelly*, 349 F.2d 720 (C.A. 2, 1965), *cert. denied*, 384 U.S. 947; *United States* v. *Borelli*, 336 F.2d 376 (C.A.

2, 1964), *cert. denied sub nom., Cinquegrano* v. *United States*, 379 U.S. 960 (1965). The trial court carefully cautioned the jurors in its instructions prior to the commencement of their deliberations:

> Count I of the Indictment charges all of the defendants named therein with participating in a single, over-all conspiracy. (Tr. 2733)
>
> * * * *
>
> Count XIV charges John C. Wagner and Robert L. Wagner with a conspiracy separate and apart from that charged in Count I. (Tr. 2728)
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> * * * *
>
> To some extent, the scope of the conspiracy and Overt Acts, set forth in Count 14, overlaps those recited in Count 1, but the impetus of Count 14 is the alleged fraud in connection with properties on which federally-insured mortgages exist. Be very sure that you do not convict on this count unless you find a conspiracy complete and separate from that charged in the first count. You cannot convict any defendants on both counts for the same violations of law. But I would remind you of the general instructions defining a conpiracy given in connection with Count 1, those general instructions also apply to Count 14. (Tr. 2752)
>
> The definition of conspiracy is the same, but the charge is different. (Tr. 2752)
>
> * * * *
>
> Again, I want to repeat that a separate crime or offense is charged in each count of the Indictment. Although evidence introduced may be considered by you in connection with all counts, each offense and the evidence applicable thereto should be considered separately as though no other offense were charged. The fact that you may find some or all of the accused guilty, or not guilty, of one of the offenses charged, should not influence your verdict with respect to any other offense charged. (Tr. 2761)

The judge had read his jury instructions privately to counsel prior to delivering them to the jury. (Tr. 2683-2716)

There were no objections or comments made by any defense counsel with respect to the judge's proposed instructions relating to the two separate conspiracy counts. After the instructions had been given to the jury, neither counsel for John Wagner nor Robert Wagner requested any further instructions relating to Count I or Count XIV, nor did either of them object to any of the instructions given relating to the two conspiracy counts. (Tr. 2770-75)[1]

John Wagner raises the time-worn cry of "*Kotteakos*"[2] in an attempt to bolster his argument that the government purposely fragmented a single conspiracy into illusory multiple conspiracies in order to improve the chances of obtaining a conviction.[3] Thus, although John Wagner claims that he was convicted on multiplicitous conspiracy counts, and that upon the evidence presented the jury could only find one illegal agreement, it is submitted that the jury disagreed with him, as was its prerogative, and, in piecing together the evidence, quite correctly found him to be a guilty participant in two separate conspiracies.[4]

Robert Wagner raises the same multiplicity argument, but with a slightly different twist. (R.W. Br. Pt. IV E) He contends that since the government had a weak case against him it purposely fragmented a single conspiracy charge to enhance the chances of convicting a fringe par-

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[1] Indeed, the only comment made by any defense counsel relating to the instructions on these counts was a statement by counsel for Peter Unger as to the court's jury instructions relating to Count XIV that the instruction "as such certainly is favorable to John C. Wagner and Robert L. Wagner." (Tr. 277)

[2] *Kotteakos* v. *United States*, 328 U.S. 75 (1946).

[3] This argument brings to mind Judge Friendly's opening statement in *United States* v. *Borelli*, 336 F.2d 376, 380 (C.A. 2, 1964), *cert. denied sub nom., Cinquegrano* v. *United States*, 379 U.S. 960 (1965): "Appellants from conspiracy convictions too often remind us of *Kotteakos* . . . in instances where the reminder is inapposite."

[4] Without conceding that John Wagner's argument has any merit on this point, it should be noted that he received concurrent sentences on the two conspiracy counts, and thus could not in any event be prejudiced by multiplicity.

ticipant by providing the jury the opportunity to reach a compromise verdict. The argument on sufficiency of evidence contained in Point One belies his contention of fringe participation. As discussed above, the jury properly found that two conspiracies existed. It is submitted that the trial court quite properly denied Robert Wagner's motion to dismiss Count XIV prior to submission of the case to the jury because, in considering "the evidence in the light most favorable to the government . . . together with the inferences which may be reasonably drawn from the facts," there was "substantial evidence upon which a jury might reasonably base a finding that the accused is guilty beyond a reasonable doubt." Rule 29(a), F. R. Crim. P. In this connection, it is a "principle *universally recognized*, that if the evidence in light most favorable to the government is such that reasonable minds 'might differ' then the question becomes one of fact for the jury to resolve, and not one of law to be determined by the courts." *Issacs* v. *United States*, 301 F.2d 706, 726-27 (C.A. 8, 1962), *cert. denied*, 371 U.S. 818 (Emphasis added).

Moreover, the assertion that conviction of a defendant on one count and his acquittal on another establishes that a "compromise verdict" was reached is an obvious *non-sequitur*. To accept this fallacious reasoning would preclude a court from ever trying a defendant on more than one count. Therefore, a reversal of the convictions in this case based upon a finding that John Wagner and Robert Wagner have been prejudiced by being improperly charged and convicted on multiple conspiracy counts would, in effect, preclude effective prosecutions of participants in complex financial conspiracies. If the government obtains a conviction on a single integral conspiracy theory, the defendants will claim that multiple conspiracies should have been charged and will ask for reversal based upon *duplicity*, while if the government alleges, proves, and obtains convictions on multiple conspiracies, the defendants, as here, will maintain that a single, over-all conspiracy should have been charged, and will ask for reversal based

upon *multiplicity*. That the law of conspiracy should not be subjected to such a dilemma is indicated by the following words of Judge Learned Hand, in *United States* v. *Cohen*, 145 F.2d 82, 88 (C.A. 2, 1944):

> It is particularly unreasonable for the accused to object that all their misdeeds should be brought to light when they so inextricably confused them themselves; i.e., to complain of that confusion of which they were the authors. *It is a strange conception of justice that, if one only tangles one's crimes enough, one gets an immunity because the result is beyond the powers of a jury to unravel.* (Emphasis added)

## POINT THREE

### Joinder of Offenses and of Defendants Was Proper and the Trial Court Did Not Abuse Its Discretion in Denying the Motions for Severance

#### A. *Joinder of Offenses and of Defendants Was Proper*

Both John Wagner and Peter Unger raise as reversible error an alleged misjoinder of offenses and defendants. (J.W. Br. Pt. A; P.U. Br. Pt. A) It is submitted that the provisions of Rule 8(a), Fed. R. Crim. P., relating to joinder of offenses, and the provisions of Rule 8(b), Fed. R. Crim. P., relating to joinder of defendants, were complied with and that defendants' misjoinder arguments have little merit.

Rule 8(a) provides for the joinder of several charges against a defendant if the offenses charged "are of the same or similar character or are based on the same act or transaction or two or more acts or transactions connected together or constituting parts of a common scheme or plan." It is common practice, particularly in securities fraud and mail fraud prosecutions, to join in one trial a conspiracy count along with separate substantive securities fraud and mail fraud counts committed in furtherance of such conspiracy. *See, e.g., Davenport* v. *United States*, 260 F.2d 591 (C.A. 9, 1958), *cert. denied*, 359 U.S. 909 (1959).

Counts II through XIII contained substantive securities fraud and mail fraud charges of "the same or similar character" and were committed in furtherance of the "common scheme or plan" alleged in Count I as the conspiracy to commit securities fraud and mail fraud. Consequently, Rule 8(a) was fully complied with by the court in allowing Counts I through XIII to be tried jointly against John Wagner. Similarly, Counts XV, XVI and XVII were substantive offenses of making false statements and transporting stolen property committed in furtherance of the "common scheme or plan" alleged in Count XIV as a separate conspiracy to defraud agencies of the United States, to make false statements to government agencies and to transport stolen funds interstate. Thus, joinder of Counts XIV, XV, XVI and XVII was also entirely proper.

The only remaining issue as to misjoinder of offenses is whether it was proper to litigate in one trial the two conspiracies with their related substantive offenses. It is submitted that such joinder was entirely proper under Rule 8(a) since both conspiracies and the substantive offenses related to each were all based on "acts or transactions connected together or constituting parts of a common scheme or plan." The evidence adduced at trial shows that defendant John Wagner masterminded and directed the over-all scheme to defraud victims into exchanging their properties for worthless paper, and that in pursuing this scheme he entered into two separate conspiracies to accomplish his aims. The evidence introduced at trial to prove the conspiracy to file false statements with the F.H.A. and the S.B.A. overlapped that used to prove part of the conspiracy to commit mail fraud and securities fraud charged in Count I. Thus, evidence of the manner in which the defendants gained control of the Puebloan Motor Inn and the Hollywood Towne House, and "milked" the revenues and income from the Hollywood Towne House and converted such monies to their own personal use was relevant to proof of both of the conspiracies charged. In fact, some of the defendants' activities with respect to

the Puebloan Motor Inn and the Hollywood Towne House were even specified as overt acts in the conspiracy charged in Count I.

In this connection, the test for whether joinder of offenses is proper involves a weighing of the possible prejudice to the defendants against the public interest in avoiding duplicitous, time-consuming trials in which the same factual and legal issues must be litigated. *United States* v. *Haim*, 218 F.Supp. 922 (S.D.N.Y. 1963). When the trier of fact will be in a position to separate out the facts and law applicable to each count, joinder of offenses is proper. *United States* v. *Kahn*, 381 F.2d 824 (C.A. 7, 1967); *Daly* v. *United States*, 342 F.2d 932 (C.A. D.C., 1964); *Drew* v. *United States*, 331 F.2d 85, 91 (C.A. D.C., 1964). The defendants, both prior to trial and now on appeal, failed to make any showing that the trial judge's denial of their misjoinder motions was incorrect. The jury's ability to separate and keep distinct the evidence and the law relating to each count, in accordance with the trial judge's precise limiting instructions on this point, is clearly demonstrated by its acquittal of Robert Wagner on the second conspiracy. In a closely analagous Securities Act and mail fraud prosecution which also involved separate charges of making false statements to the SEC in violation of 18 U.S.C. 1001, *United States* v. *Steel*, 38 F.R.D. 421 (S.D.N.Y. 1965) where the court held that there was no misjoinder in a 22 count indictment [1] against two defendants, although the offenses were different, it found that the false statements were made to the SEC in furtherance of the overall scheme or plan, and that the proof to be introduced at trial would be relevant to all three groups of charges.

This then leaves for determination the issue of whether the defendants were properly joined for trial under the permissive provisions of Rule 8(b). That rule authorizes

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[1] Count I alleged a conspiracy to violate the Securities Act and the Mail Fraud Statute, Counts II through XI alleged substantive Securities Act crimes committed in furtherance of the conspiracy, and Counts XII through XXII alleged substantive counts of false statements made to the SEC.

joinder of defendants if the indictment alleges that the defendants participated "in the same series of acts or transactions constituting an offense or offenses," and expressly states that joinder is proper even though each defendant is not charged in each count. In construing Rule 8(b), the courts have clearly held that joinder of defendants is proper even though all are not charged in each count, *Schaffer* v. *United States*, 362 U.S. 511 (1960); *United States* v. *Steel*, 38 F.R.D. 421 (S.D.N.Y. 1965), and even though all have not participated equally in the offenses charged, *United States* v. *Bryant*, 264 F.2d 598, 603 (C.A. 4, 1966); *Ader* v. *United States*, 284 F. 13 (C.A. 7, 1922).

As the court stated in *Haggard* v. *United States*, 369 F.2d 968, 973 (C.A. 8, 1966), "Broad interpretation of Rule 8(b) is undoubtedly encouraged in the interests of more efficient administration of criminal trials." In *Haggard*, a total of six defendants were charged in various counts of the indictment, but Haggard was the only defendant named in each count. The indictment charged Haggard, Alley and another defendant in a conspiracy count, and charged Haggard in all, but Alley in only 3 of the 13 substantive counts. On appeal, Alley claimed misjoinder under Rule 8(b). In its examination of the indictment, the court found that Haggard was a common participant throughout all counts (as was John Wagner in the instant case); that each of the charges implied a "clear discernible pattern of action" involving each of the other defendant's assisting Haggard, the prime defendant, in the "same series of transactions" (similarly, in the instant case, Robert Wagner and Peter Unger assisted John Wagner in his over-all scheme to defraud); that the indictment invited "joint proof" (just as in the instant case, proof concerning many of the real estate transactions jointly implicated the three appellants); and concluded that under these circumstances, prima facie joinder was shown. Applying the *Haggard* rationale, it is submitted there was no misjoinder in the case at bar. *Cf.*, *Davenport* v. *United States*, 260 F.2d 591 (C.A. 9, 1958), *cert. denied*, 359 U.S. 909 (1959).

### B. *The Trial Court Did Not Abuse Its Discretion in Denying the Motions for Severance*

Even where joinder of offenses and of defendants is proper under Rule 8, Rule 14, Fed. R. Crim. P., recognizes the possibility of prejudice resulting therefrom, and provides that where it appears that either a defendant or the government is prejudiced by such joinder, "the court *may* order an election or separate trials of counts, grant a severance of defendants or provide whatever other relief justice requires." (Emphasis added.) The granting or denying of a motion for severance rests in the sound discretion of the trial court and is a matter which is not reviewable except for a clear abuse of discretion. *Opper* v. *United States*, 348 U.S. 84 (1954); *Davenport* v. *United States*, 260 F.2d 591 (C.A. 9, 1958), *cert. denied*, 359 U.S. 909 (1959); *Shockley* v. *United States*, 166 F.2d 704 (C.A. 9, 1948), *cert. denied*, 334 U.S. 850. Severance is properly denied unless the defendant makes a clear-cut showing of prejudice, even where there has been a failure of proof or dismissal of the sole count justifying joinder. *Schaffer* v. *United States*, 362 U.S. 511 (1960); *United States* v. *Aiken*, 373 F.2d 294 (C.A. 2, 1967); *Fernandez* v. *United States*, 329 F.2d 899 (C.A. 9, 1964), *cert. denied*, 379 U.S. 832. Moreover, defendants are not entitled to separate trials merely because of unequal proof, *United States* v. *Sherman*, 84 F.Supp. 130 (E.D.N.Y. 1947), because of the expense of a joint trial, *United States* v. *Van Allen*, 28 F.R.D. 329 (S.D.N.Y. 1961), because some defendants are named in only a few counts, *United States* v. *Nomura Trading Co.*, 213 F.Supp. 704 (S.D.N.Y. 1963), because some defendants have a lesser role in the crime than other defendants, *West* v. *United States*, 311 F.2d 69 (C.A. 5, 1962), because the defendants may be hostile to each other, *Allen* v. *United States*, 202 F.2d 329 (C.A. D.C. 1952), or because defendants have different but not antagonistic defenses, *United States* v. *Fujimoto*, 102 F.Supp. 890 (D. Hawaii 1952).

The "shot-gun" showing of purported prejudice made by John Wagner (J.W. Br. Pt. A) and Peter Unger (P.U.

Br. Pt. H) is wholly insufficient to establish that the trial court abused its discretion in denying the motions for severance. Here, the indictment charged and the evidence convincingly established that John Wagner, Peter Unger and Robert Wagner actively participated in the implementation of a fraudulent scheme. That each one's involvement in the fraudulent activities may have occurred at different times and different places, and that each one contributed to the implementation of the fraudulent scheme in a somewhat different way, does not establish that any of them was prejudiced by not having a separate trial. When multiple defendants are charged with engaging in a scheme to defraud, a joint trial "not only increases the speed and efficiency of the administration of justice but also serves to give the jury a complete over-all view of the whole scheme and helps them to see how each piece fits into the pattern." *Rakes* v. *United States*, 169 F.2d 739, 744 (C.A. 4, 1948). The fact that some of the defendants play only "a very small part in wrong-doing as compared with others does not reasonably entitle them to separate trials." *Ader* v. *United States*, 284 F. 13 (C.A. 7, 1922). Also, although Peter Unger has claimed prejudice based upon the possibility that the jury may have been confused by the presentation of evidence on counts in which he was not named a defendant, such a general unsupported assertion of prejudice does not justify a severance. *Williamson* v. *United States*, 310 F.2d 192 (C.A. 9, 1962).

It is submitted that the decision of this Court in *Davenport* v. *United States*, 260 F.2d 591 (C.A. 9, 1958), *cert. denied*, 359 U.S. 909 (1959), is controlling on the issues of joinder and severance presented in the instant case. In *Davenport*, nine defendants were charged by indictment with one count of conspiracy to violate the Mail Fraud Statute and the anti-fraud provisions of the Securities Act of 1933, and all of the defendants except Davenport and another were charged with twelve counts of substantive violations of those statutes; Davenport was named in only 4 of 40 overt acts alleged in the conspiracy count. After examining the record and finding that the trial court care-

fully distinguished the charges and the defendants for the jury, the court held, "We see no reason to interfere with the trial Court's discretion [in denying Davenport's motion for severance], as we find that no prejudice was suffered by the appellant." 260 F.2d at 595. A similar examination of the record on this appeal shows that the trial court constantly admonished the jury to consider the guilt or innocence of each defendant solely upon the evidence introduced at trial against him, and to determine its verdicts separately as to each defendant, pursuant to the trial court's careful and detailed instructions. As the *Davenport* court stated, in citing from *Dowdy* v. *United States*, 46 F.2d 417, 421 (C.A. 4, 1931):

> Where two or more defendants are indicted for a joint transaction, it is inadvisable to split up the case into many parts for separate trials, in the absence of very strong and cogent reason therefor. This is especially true in conspiracy charges, from the very nature of the case.

In the instant case, the defendants rely upon *Drew* v. *United States*, 331 F.2d 85 (C.A. D.C., 1964) in claiming prejudice by virtue of the introduction of evidence which failed to meet the "other crimes test." *Drew*, however, involved joinder of distinct and separate offenses which were neither parts of "a common scheme or plan" nor parts of the "same act or transactions or the same series of acts or transactions," and therefore is inapposite. In addition, John Wagner raises two strained arguments to bolster his contention that a joint trial severely prejudiced him: first, citing *Echeles* v. *United States*, 352 F.2d 892 (C.A. 7, 1965), that he was denied the opportunity to call his co-defendants as his defense witnesses; and second, that he was prejudiced by the introduction into evidence of Peter Unger's statements to government officers which allegedly incriminated him. The first argument is patently spurious since both of his remaining co-defendants, Robert Wagner and Peter Unger, did take the stand, and he had ample opportunity to examine them if he so desired. Moreover, *Echeles* is inapposite since no showing has ever

been made by John Wagner that any of his co-defendants ever made any prior statements exculpating him. The second argument is also without merit because no objection was made at trial to the introduction of Peter Unger's statements, and even if such objection had been interposed, the statements were still admissible since Peter Unger took the stand and was available for cross-examination by John Wagner. *Cf. Bruton* v. *United States*, 391 U.S. 123 (1968); *United States* v. *Levinson*, . . . F.2d . . . (C.A. 6, Nos. 18204 et seq., Dec. 30, 1968).

It is obvious that if severances had been granted in the instant case, three separate trials in which the evidence would be almost identical would needlessly have been required. *Cf. United States* v. *Van Allen*, 28 F.R.D. 329, 339 (S.D.N.Y. 1961). The mere fact that the defendants might have had a better chance of acquittal if tried separately does not constitute grounds for severance. *Robinson* v. *United States*, 210 F.2d 29 (C.A. D.C., 1954). As Judge Augustus Hand astutely observed in *United States* v. *Fradkin*, 81 F.2d 56, 59 (C.A. 2, 1935):

> A man takes some risk in choosing his associates, and if he is hailed into court with them, must ordinarily rely on the fairness and ability of the jury to separate the sheep from the goats.

## POINT FOUR

### The Trial Court Did Not Abuse Its Discretion in Denying the Motions for Change of Venue

Peter Unger urges as error the denial of his pre-trial motion for change of venus pursuant to Rule 21(b), Fed. R. Crim. P., alleging that his indigency, his residence, the probable length of the trial, and the residence of the majority of witnesses compelled the transfer of the proceedings to the United States District Court for the Southern District of California. (C.T. 100-101) (P.U. Br. Pt. B) Similarly, John Wagner also filed a pre-trial motion for change of venue, with a supporting affidavit, alleging that the indictment charged offenses in different districts,

the overwhelming majority of which were not within the jurisdiction of the District Court of Oregon, and that his residence, the residences of the majority of witnesses, and his indigency, purportedly depriving him of paid counsel of his choice, required transfer of the proceeding to the United States District Court for the Southern District of California. (C.T. 109-12) On appeal, he reasserts the allegations contained in the pre-trial motion and affidavit, and claims that those allegations were borne out by the trial. (J.W. Br. Pt. C)

Unless the defendants show that trial in the district selected by the prosecution would be "unduly burdensome" and unfair, *United States* v. *United States Steel Corp.*, 233 F.Supp. 154, 157 (S.D.N.Y. 1964); *United States* v. *Jessup*, 38 F.R.D. 42 (M.D.Tenn. 1965), or establish that the "substantial balance of inconvenience" requires transfer, then transfer is not warranted, *United States* v. *Luros*, 243 F.Supp. 160, 173-74 (N.D.Iowa 1965).

> [N]o matter where [the] trial is conducted, there will be inconvenience to the parties, . . . , their counsel and their witnesses. But mere inconvenience, interference with one's routine occupational and physical activities, and other incidental burdens which normally follow when one is called upon to resist a serious charge do not *ipso facto* make the necessary showing that a transfer is required in the interest of justice. *United States* v. *Luros*, 243 F.Supp. at 174.

The defendants have failed to make the necessary showing of "a substantial balance of inconvenience" to themselves, or that a trial in Oregon would be "so unduly burdensome" that transfer to the Southern District of California was warranted. Of the 155 total transactions, including overt acts, alleged in the indictment, 96 involved a substantial nexus with Oregon.[1] Moreover, prior to trial, the government made available for the use and convenience of defense counsel lists of 244 proposed government

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[1] Of the 84 transactions alleged in Counts I through XVII, encluing Count XIV, 31 involved a substantial nexus with Oregon. Count XIV alleged 71 overt acts, 65 of which occurred in Oregon.

witnesses, 99 of whom were from Oregon. That a large plurality of the witnesses resided in Oregon and not, as alleged, in Southern California, was borne out by the fact that of the 108 government witnesses who testified during the 14-day trial, 37 were from Oregon, 14 from Northern California, 19 from Southern California, 17 from Hawaii, 7 from Nevada, 5 from Arizona, and 4 from other states. Obviously, the District of Oregon, where a very substantial number of transactions had their nexus and where a large plurality of the witnesses resided, clearly was a more convenient and less expensive forum than the Southern District of California for the government and the witnesses.

While the defendants' residences are a consideration,[2] there is no constitutional right to trial in a home district. *Platt* v. *Minnesota Mining & Mfg. Co.*, 376 U.S. 240, 245 (1964); *United States* v. *Luros*, 243 F.Supp. 160, 174-75 (N.D.Iowa, 1965). In addition to defendants' residences and their indigency, with its purported effects,[3] in deciding a motion for a change of venue, the court must also consider the residence of witnesses, the location of books, records and other exhibits, and the rights of and costs to the government. *See Platt* v. *Minnesota Mining and Mfg. Co.*, 376 U.S. 240 (1964); *United States* v. *Jessup*, 38 F.R.D.

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[2] In his April 24, 1967 sworn statement of financial status, John Wagner listed his residence as New Orleans, Louisiana. (C.T. 119) He obviously would have incurred expense and inconvenience of traveling to either Oregon or Southern California.

[3] In light of his April 24, 1967 sworn statement of financial status showing absolutely no income and no real or other property (C.T. 119-20), John Wagner's contradictory allegation that denial of transfer caused his indigency and deprived him of counsel he was able to pay, is shown to be without substance. *See* POINT SIX, *infra*. John Wagner's further allegation that denial of transfer resulted in his lack of an affirmative defense, purportedly because he was unable to subpoena witnesses, is also without merit, particularly in light of the government's frequently proffered cooperation in making available broad discovery to defense counsel long before trial, government witness lists, and government facilities for interviewing proposed witnesses for both the government and the defense. *See* POINT FIVE, *infra*.

42 (M.D.Tenn. 1965); *United States* v. *Luros*, 243 F.Supp. 160 (N.D.Iowa, 1965).

Those cases cited by John Wagner to support his assertion that the trial court erred in denying his motion for change of venue clearly do not satisfy his burden of demonstrating the trial court's alleged abuse of discretion under the facts and circumstances of the instant case. In *United States* v. *Jessup*, 38 F.R.D. 42 (M.D.Tenn. 1965), the court held that trial in a Tennessee District Court for mail fraud would impose substantial hardship on the defendants for the reasons that (1) the defendants were residents of Mississippi and would have to incur considerable expense traveling to and remaining in Tennessee for the trial; (2) the majority of the defendant's witnesses were residents of Mississippi and transporting them to Tennessee would have involved considerable expense and inconvenience to them and to the defendants; (3) the corporate vehicle for the alleged fraud, including its books and records, were located in Mississippi and transporting those materials to Tennessee would have involved some expense and inconvenience to the defendants; (4) immovable objects located in Mississippi could not be viewed by a jury sitting in Tennessee; (5) the interruption of the operation of defendant's business located in Mississippi would cause the defendants great losses and serious financial hardships; and (6) the bulk of the alleged offenses were committed in Mississippi. 38 F.R.D. at 45-48.

In *United States* v. *West Coast News Co.*, 30 F.R.D. 13 (W.D.Mich. 1962), another case cited by John Wagner, the court held that it would *not* be in the interest of justice to transfer an obscenity prosecution from Michigan, the district where the obscene materials were delivered and distributed, to California, the district where the materials were published, the individual defendants resided, and the corporate defendant was located, even though the defendants and their witnesses would have to travel from California to Michigan for the trial. In balancing the countervailing considerations of convenience and expense to all parties involved, the court observed that "if this action

were transferred [from Michigan to California], the government's witnesses would be required to travel from this district to California. *It is obvious that no district will be convenient for all of the witnesses in this action.*" 30 F.R.D. at 24 (emphasis added).

*Travis* v. *United States*, 364 U.S. 631 (1961), another case cited by John Wagner, is distinguishable because the Court did not reach the issue of which district would be the most convenient for trial, since it held that the trial court had no discretion under the applicable statute to transfer the false filing prosecution.

Finally, in *United States* v. *Luros*, 243 F.Supp. 160 (N.D.Iowa, 1965), the court first observed that:

> The importance of assuring good order in the management of judicial business and efficient handling of a prosecuting attorney's case load, requires that a defendant demonstrate a substantial balance of inconvenience to himself if he is to succeed in nullifying this prerogative [of the prosecution to make the initial choice of venue]. 243 F.Supp. at 174 (citations omitted).

and then considered defendants' three allegations of specific hardships that they would be unable to conduct their businesses and to meet their family responsibilities, they would be physically and economically taxed if required to transport themselves, their attorneys and their witnesses to Iowa, and that their living expenses in Iowa during trial would be "staggering," all required transfer of the obscenity prosecution from Iowa to Southern California. The court, in denying transfer, balanced the necessarily increased burdens defendants would have to bear during a trial in Iowa with the countervailing considerations of inconvenience and expense to government witnesses, most of whom were from Iowa, and the right of residents of a district where obscene materials are distributed to protect themselves therefrom without having to wait for a prosecutor in another district to see fit to act. 243 F.Supp. at 174-78.

It is apparent from this examination of the cases cited by John Wagner that the trial court's denial of the motions for change of venue in the instant case was a proper and sound exercise of judicial discretion. The cumulative and compelling factors present in *Jessup* are clearly not present here. *Travis* is clearly inapposite to the instant matter because the trial court had no discretion to transfer that prosecution in the face of statutory and regulatory requirements that venue was proper in only one district. The obscenity cases of *West Coast News* and *Luros*, demonstrating the balancing process involved in the trial court's implementation of the policy of minimizing inconvenience to *all* parties, clearly show that the increased burdens to defendants normally necessitated by a prosecution away from "home" must be substantial and undue to warrant transfer in view of countervailing burdens to the government, government witnesses, and the public if removal were granted, and that the defendants must establish more than that another district would be more convenient for them to persuade the trial court to grant transfer.

While it may have been more convenient for Peter Unger and John Wagner, and for John Wagner's California counsel, to be tried in the Southern District of California, such a showing is insufficient to warrant transfer, particularly when the countervailing considerations of convenience to the government and to the large plurality of witnesses militated most persuasively against removal from the District of Oregon. Even assuming *arguendo* that the reasons for Southern California venue were as compelling as the reasons for Oregon venue, the defendants' showing would still fail to establish a substantial balance of inconvenience or that the trial court abused its discretion in denying their motions for transfer. *United States* v. *Aronson*, 319 F.2d 48, 52 (C.A. 2, 1963), *cert. denied*, 375 U.S. 920; *see United States* v. *West Coast News*, 30 F.R.D. at 24.

John Wagner now argues for the first time that publicity, both pre-trial and during the course of the trial, re-

quired transfer under Rule 21(a), Fed. R. Crim. P. Logically, where prejudicial pre-trial publicity prevents a fair and impartial trial in the district, the appropriate motions are for change of venue or for a continuance; but where prejudicial publicity after commencement of the trial prevents a fair and impartial trial, the appropriate motions are for a mistrial or for a continuance. Therefore, it is submitted that making this argument for the first time on appeal is untimely and tardy, *cf. United States* v. *Tremont*, 351 F.2d 144 (C.A. 6, 1965), *cert. denied*, 383 U.S. 944, and that the failure to raise the argument in a motion for change of venue either before the trial commenced or within a reasonable time thereafter constituted a waiver thereof under Rule 21(a), within the meaning of Rules 22, 12(b)(2) and 12(b)(3), Fed. R. Crim. P. *Cf. United States* v. *McMaster*, 343 F.2d 176 (C.A. 6, 1965), *cert. denied*, 382 U.S. 818.

Under Rule 21(a), the trial court necessarily exercises a broad discretion in determining whether publicity renders a trial in the district unfair. It is well-established that the trial court's determination should be overturned only upon a clear showing of prejudice which demonstrates an abuse of discretion. *E.g., United States* v. *Moran*, 236 F.2d 361 (C.A. 2, 1956), *cert. denied*, 364 U.S. 887. Therefore, even if the publicity argument were properly raised with respect to the venue issue, the trial court did not abuse its discretion in denying the motion for transfer on the grounds of pre-trial publicity. The mere existence of pre-trial publicity is not decisive under Rule 21(a). *Kersten* v. *United States*, 161 F.2d 337 (C.A. 10, 1947), *cert. denied*, 331 U.S. 851; *see Shockley* v. *United States*, 166 F.2d 704 (C.A. 9, 1948), *cert. denied*, 334 U.S. 850. There is no denial of a fair trial where pre-trial publicity is factual rather than inflammatory, and has significantly diminished for a period of time before trial. *See Beck* v. *Washington*, 369 U.S. 541 (1962); *Beck* v. *United States*, 298 F.2d 622 (C.A. 9, 1962), *cert. denied*, 370 U.S. 919.

In the instant case, the trial court recognized as early as three and one-half months before trial that "this case

has been singularly free of publicity in the last six or eight months since the original splash." (Pre-Tr. 2840, March 30, 1967) In fact, there were only four days on which articles involving any aspect of the case appeared in the Portland newspapers between the time the return of the indictment was reported and the first day of trial: March 11, 1967; April 24, 1967; April 25, 1967; and July 1, 1967. (J.W. Br. Exs. 5-9) An examination of these articles indicates that they were devoted almost exclusively to factual and accurate reports on the foreclosure of the Hollywood Towne House and only incidentally, if at all, mentioned the indictment or the forthcoming trial. There could have been no showing of prejudice in the district before trial because there simply was none. The trial court was satisfied that the defendants could obtain a fair and impartial trial there. Under these facts and circumstances, even if John Wagner had made a motion for transfer because of prejudice in the district, the trial court's denial of transfer would have been a most proper exercise of judicial discretion.

## POINT FIVE

### The Trial Court Properly Refused to Grant John Wagner, in the Absence of an Adequate Showing of Necessity, Government Funds for Investigatory Purposes, Unlimited Subpoenaing of Witness at Government Expense, and an Allegedly Requested Continuance

John Wagner makes the broad-brush contention that the trial court's denial of his motion and requests for investigatory funds totaling $3,000 and for the issuance of more than 300 subpoenas at government expense deprived him of due process of law and effective assistance of counsel. (J.W. Br. Pt. E) Rule 17(b), Fed. R. Crim. P., as amended in 1966, authorizes the Court to issue subpoenas to a defendant at government expense only "*upon a satisfactory showing* that the defendant is financially unable to pay the fees of the witnesses and *that the presence of the*

*witnesses is necessary to an adequate defense.*" (Emphasis added)[1]

It is well-settled that the right afforded by Rule 17(b) is not absolute, but rather is committed to the sound discretion of the trial court. *Thompson* v. *United States*, 372 F.2d 826, 828 (C.A. 5, 1967); *United States* v. *Zuideveld*, 316 F.2d 873, 881 (C.A. 7, 1963), *cert. denied*, 376 U.S. 916; *Murdock* v. *United States*, 283 F.2d 585, 587 (C.A. 10, 1960), *cert. denied*, 366 U.S. 953 (1961); *see Barnes* v. *United States*, 374 F.2d 126, 128 (C.A. 5, 1967); *Gevinson* v. *United States*, 358 F.2d 761, 766 (C.A. 5, 1966), *cert. denied*, 385 U.S. 823. It is also clear that in exercising its discretion, the trial court must explore the request thoroughly and carefully not only to protect the defendant's rights under the rule and under the fifth and sixth amendments, but also to screen out frivolous requests for witnesses and to prevent "useless or abusive issuance of process", *United States* v. *Zuideveld*, 316 F.2d 873, 881 (C.A. 7, 1963), *cert. denied*, 376 U.S. 916 (425 witnesses requested); *Murdock* v. *United States*, 283 F.2d 585, 587 (C.A. 10, 1960), *cert. denied*, 366 U.S. 953 (1961), and "fishing expeditions," *cf. United States* v. *Smith*, 209 F.Supp. 907 (D.Ill. 1962); *United States* v. *Hanlin*, 29 F.R.D. 481 (D.Mo. 1962). Consequently, it has been clearly established that the trial court's exercise of that discretion will not be disturbed by an appellate court unless exceptional and compelling circumstances clearly indicate an abuse of discretion. *Thompson* v. *United States*, 372 F.2d 826, 828 (C.A. 5, 1967); *Taylor* v. *United States*, 329 F.2d 384, 386 (C.A. 5, 1964); *United States* v. *Zuideveld*, 316 F.2d 873, 881 (C.A. 7, 1963), *cert. denied*, 376 U.S. 916; *see Reistoffer* v. *United States*, 258 F.2d 379, 396 (C.A. 8, 1958), *cert. denied*, 358 U.S. 927.

It is submitted that an examination of the record demonstrates that the trial court carefully considered John

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[1] Even prior to amendment, Rule 17(b) required a satisfactory showing that the requested witnesses would be "material to the defense." The new amendments to Rule 17(b) changed only the procedure for obtaining subpoenas, not the substance of the rule's requirements.

Wagner's requests for the issuance of subpoenas at government expense, and that its refusal to order more than 13 subpoenas was a proper exercise of judicial discretion. However, since John Wagner's presentation of this issue in both his original and supplemental briefs is filled with distortions and inaccuracies, the government feels compelled to summarize the actual facts in the record. The first request for funds and subpoenas was made on June 26, 1967. Counsel for John Wagner had been provided with a list of proposed government witnesses, had decided that he and his client wished to interview approximately 52 of them, and asked the court for approximately $3,000 so that they could travel to interview such persons. (Pre-Tr. 3-4, June 26, 1967) Since it was anticipated that the government would call these persons as witnesses at the trial, the court, in attemping to prevent a waste of government money, suggested that rather than granting the defendant and his counsel government funds to interview such persons, the defendant and his counsel would be able to interview them prior to their testimony as government witnesses during the trial. (Pre-Tr. 7-8, June 26, 1967) In order to assist the defendants in this regard, prior to trial the government completely opened up its files with regard to these witnesses, and gave the defendants absolute discovery of all witnesses statements, digests of anticipated testimony, and all documents relevant to such anticipated testimony. (Pre-Tr. 10-11, June 26, 1967; Pre-Tr. 15, July 10, 1967) Such pre-trial discovery, to which the defendants had no right at all, was intended to assist the defendants in determining which witnesses to be called by the government might be helpful as defense witnesses.

On July 6, 1967, John Wagner's attorney requested the Clerk of the Court to issue subpoenas for 325 defense witnesses to appear both for pre-trial questioning, and for purposes of testifying at the trial. (C.T. 134-43) The Clerk, however, advised defense counsel that such subpoenas would be issued in blank, but that if he wished the government to pay the witness fees, an order from the court pursuant to Rule 17(b) was required. (C.T. 132)

On July 10, 1967, defense counsel filed an "Affidavit and Motion for Issuance of Subpoenas" requesting that the court subpoena at government expense 65 defense witnesses for the trial. The court indicated that the motion on its face was an unreasonable request for expenditure of government funds, and ruled that the motion was not accompanied by an adequate showing that each one of the 65 requested witnesses was necessary for an adequate defense. (Pre-Tr. 8-9, July 10, 1967) The Court added that a proper determination of whether the requested witnesses would be "necessary" could probably not be made until the trial progressed. This observation of the trial court that the request was premature was substantiated when another defense attorney, who had joined in the motion, admitted that most of the 65 requested witnesses were prospective rebuttal witnesses. (Pre-Tr. 10, July 10, 1967) Once again the trial court assured defense counsel that they would be afforded the opportunity to subpoena at government expense those witnesses that they could demonstrate were necessary to an adequate defense, but expressed its dissatisfaction with the superficial showing of necessity contained in the motion papers. (Pre-Tr. 10-14, July 10, 1967) Finally, recognizing that defense counsel would not need rebuttal witnesses for at least three weeks, the trial court admonished that "I think a more adequate showing will have to be required." (Pre-Tr. 17, July 10, 1967) Although the trial court indicated its availability to hear any supplemental showing of "necessity" that could be made (Pre-Tr. 19, July 10, 1967), neither John Wagner nor his attorney ever made any further effort to establish the requested showing of necessity.

On July 12, 1967, John Wagner's attorney again requested government funds to finance the pre-trial interview of more than 300 defense witnesses. (C.T. 157-62)

On July 19, 1967, the second day of trial, the court was willing to require that a witness subpoenaed but not used by the government remain at the trial and be available to be called as a defense witness, but John Wagner's attorney refused to make any showing whatever of "necessity" with

regard to such witness. (Tr. 69-70) At the court's suggestion, the government indicated its willingness to call the witness in order to alleviate any problems. (Tr. 71-72)

On July 25, 1967, the court admonished defense counsel that in asking for issuance of subpoenas at government expense, the attorneys had an obligation to the court to request subpoenas for only those witnesses that defendants "really need." (Tr. 1035-38) Nevertheless, the court granted, in part, defense counsel's request for subpoenas at government expense when he instructed that 13 subpoenas be made available for defense counsel without any further showing of necessity. (Tr. 1037)

On July 31, 1967, the Court discussed with counsel the procedures to be followed in arguing defense motions the next day at the close of the government's case-in-chief, and in proceeding thereafter to hear witnesses for the defense. John Wagner's attorney, who represented that he had defense witnesses standing by,[2] expressed his view that defense motions could "take quite a bit of time and might affect the schedule of the Court." (Tr. 2115) Another defendant's attorney had just previously informed the court that he might want to call a defense witness out of order. (Tr. 2113) In considering these and other matters brought to its attention, the court stated:

> As a matter of fact, there might be some problem in putting even on [*during the next day's session*] the one witness you [*the other defendant's attorney*] have in mind because of the time consumption involved [*in making defense motions*], unless, of course, everybody wants to agree that we put him [*the other defendant's witness*] on out of order. (Tr. 2115) (Emphasis added)

In proper context, these remarks of the trial court exemplify the careful consideration it gave to the defendants and their counsel throughout the course of the trial. John Wagner's allegation that the trial court made these remarks "when appellant's attorney located one witness

[2] Ultimately, John Wagner called no defense witnesses.

without government funds," (J.W. Br. at 53-54(13)), is a preposterous distortion of the record. His quotation of the remarks out of proper context constitutes an unjustified attempt to cast doubt upon the integrity and fairness of the trial court.

During a later *ex parte* proceeding on July 31, 1967, attended only by John Wagner and his attorney in the trial court's chambers, John Wagner's attorney stated for the record the difficulties he was encountering in interviewing, and even locating by telephone persons he and his client apparently considered potential defense witnesses. (Tr. 2118-19, 2122-24) Several of his remarks were most revealing:

> We will state for the record that I have tried to contact witnesses, and quite frankly, Your Honor, *some of the witnesses, have not indicated to me on the phone what they were thought by my client to be indicating.* (Tr. 2122-23) (Emphasis added)

When John Wagner's attorney did mention that he was attempting to reach several witnesses who possibly could testify to what were relevant and material facts, the trial court, indicating in substance that any reasonable showing of necessity would be sufficient to obtain subpoenas and that no affidavit need be made, stated:

> Well, first of all, on any reasonable request, certain subpoenas will be issued for any of these witnesses that you mentioned, without any affidavit or anything else. (Tr. 2124)

The attorney answered "Okay," and then stated that the requests would probably be made the next morning. However, no requests were ever made for the witnesses mentioned during the proceeding; and, other than the usual conclusionary and unsupported claims indicating testimony John Wagner desired or expected, no showing of necessity was ever attempted for any proposed witness.

On August 1, 1967, John Wagner's attorney read into the record a long recitation of the results of his telephone

contacts with proposed witnesses,[3] but made no attempt at this or at any other time to make any showing at all that any proposed witness was necessary to an adequate defense. (Tr. 2394-99)

The foregoing examination of the record, fairly presented, indicates that it was the failure of John Wagner and his counsel to make a reasonable showing of "necessity," not an abuse of discretion by the trial court, that formed the basis of the court's decision to refuse to issue at government expense subpoenas in addition to the 13 that had been issued. The fact that none of the 13 witnesses so subpoenaed were ever called by John Wagner to testify indicates that the court's refusal to issue additional subpoenas was indeed proper.[4]

None of the cases cited by John Wagner on this issue in his brief are apposite to the instant case. In *Greenwell* v. *United States*, 317 F.2d 108 (C.A. D.C., 1963), the appellate court held that the trial court has misconstrued the provisions of Rule 17(b), as it read prior to the 1966 amendments, to require that the averments of the defendant with respect to the expected testimony of proposed witnesses be substantiated by the production of testimonial or documentary evidence. The appellate court held that when the defendant avers facts which, if true, would demonstrate the necessity to the defense of the testimony of the proposed witness and that such testimony is relevant, then the request would not be frivolous and should be granted. 317 F.2d at 110. *See also Washington* v. *Clemmer*, 339 F.2d 715, 718 (C.A. D.C., 1964).

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[3] The government made available, during the course of the trial, the use of a telephone on a full time basis to enable defense counsel to interview prospective witnesses. (Tr. 1245-51).

[4] Moreover, five of the 65 persons for whom John Wagner requested subpoenas by motion on July 10, 1967, did testify at trial but were not called as defense witnesses for him. (Boyles, Tr. 1880; Dunham, Tr. 997; Gregory, Tr. 824; Potter, Tr. 1787; Nobriga, Tr. 2305).

Obviously, the required showing on the face of an affidavit that a requested witness would be "material to the defense" under former Rule 17(b) is substantially similar to the present requirement of a satisfactory showing by *ex parte* application that "the witness is necessary to an adequate defense." In the final analysis, the trial court must be allowed to deny the issuance of subpoenas under Rule 17(b) when an adequate showing of necessity is not made; otherwise government funds would be unfairly dissipated by frivolous requests for subpoenas.

John Wagner can find no support for his contention in another case that he cites, *Taylor* v. *United States*, 329 F.2d 384 (C.A. 5, 1964). In *Taylor*, the appellate court held that the trial court abused its discretion in denying the request of an indigent defendant who was relying on an insanity defense to subpoena at government expense a psychiatrist who had three years previously committed the defendant as insane, at a time when the defendant had been charged with a similar offense. The appellate court felt that "justice was not quite done. That is our feeling here under the *almost rare facts presented.*" 329 F.2d at 387 (Emphasis added).

In order to bolster his argument that he was prejudiced by a denial of funds and subpoenas, John Wagner frivolously argues that he was prejudiced by the court's denying his request for a continuance of the trial. (J.W. Br. Pt. G) No indication can be found in the record that such motion was even made, much less denied. However, even if it were actually made and denied, such denial would have been a proper exercise of judicial discretion. *See, e.g., Avery* v. *Alabama*, 308 U.S. 444, 446 (1940); *Lemons* v. *United States*, 337 F.2d 619 (C.A. 9, 1964). John Wagner's final trial counsel was appointed by the court approximately 70 days prior to the commencement of the trial, and had ample opportunity to prepare the case, particularly in light of the unusually liberal opportunities for discovery which the defendants herein were granted. Moreover, John Wagner's total reliance on *Stamps* v. *United States*, 387 F.2d 993 (C.A. 8, 1967), the only case cited, is completely misplaced. In that case, upon a com-

plaint issued in September 1966 charging that in June 1966 the defendant willfully concealed a person to prevent his discovery and arrest with knowledge that a warrant had been issued for the person's arrest, the government fully presented its case at a hearing before a commissioner on November 10, 1966, at which time the defendant had an opportunity to cross-examine government witnesses at length. When the complaint was dismissed for insufficient evidence, the United States Attorney notified defendant's attorney that the case would be submitted to the grand jury. An indictment was returned on December 6, 1966; and defendant was arraigned on December 9, 1966. The motion for a continuance was not made until December 14, 1966, the day before trial, and was then denied. The reviewing court held that under the circumstances [which John Wagner fails to mention] the defendant was not prejudiced by allegedly inadequate time for preparation because the witness who the defendant was not able to interview before trial appeared at the first day of trial and was available and did testify in the defendant's behalf.

An examination of the record herein reveals that defendant's demands were unreasonable in both the number of witnesses proposed and the cost involved; that his seeking at least $3,000 in funds to travel, plus the issuance of subpoenas, to interview witnesses and to conduct a pre-trial investigation merely contemplated an attempted fishing expedition which would have involved the useless and abusive issuance of process; that the government afforded all defendants including John Wagner a fair trial by providing broad and extensive pre-trial discovery and by making available witnesses and documents throughout the course of the trial; that the trial court afforded all defendants including John Wagner its cooperation, consideration and fairness in its conduct of the entire proceeding, both before and during the trial; but that John Wagner made no effort to comply with the reasonable requirements of the trial court and of the express language of Rule 17(b) with respect to his obtaining subpoenas. There can be no doubt that the trial court did not abuse its discretion in

denying John Wagner's applications for the issuance of subpoenas at government expense, for government funds, and for the allegedly requested continuance.

## POINT SIX

### The Claims of Peter Unger and John Wagner of Denial of Due Process of Law and Assistance of Effective and Competent Counsel Are Without Merit

Peter Unger claims that he was denied due process of law in violation of his sixth amendment right to the assistance of counsel by the allegedly ineffective and incompetent representation provided by his court-appointed counsel, Thomas P. Price. (P.U. Br. Pt. F) John Wagner claims that he was prejudiced by the trial court's depriving him of counsel of his own choosing. Additionally, he argues that his court-appointed counsel, Lewis Hampton, was hampered in presenting a defense on his behalf, primarily due to the trial court's denial of funds and subpoenas. (J.W. Br. Pt. D) It is unfortunate that convicted defendants are prone to blame their convictions on the alleged incompetency of counsel, particularly when such counsel is court-appointed.

It is well-established in this Circuit that the assistance of court-appointed counsel is constitutionally inadequate only when the trial record clearly shows that it was so deficient "as to make the trial a farce or a mockery of justice." *Reid* v. *United States*, 334 F.2d 915, 919 (C.A. 9, 1964); *Peek* v. *United States*, 321 F.2d 934, 944 (C.A. 9, 1963); *Stanley* v. *United States*, 239 F.2d 765, 766 (C.A. 9, 1956). In addition to an examination of the record, it is relevant to consider such factors as whether the defendant had a defense which was not presented; whether trial counsel consulted sufficiently with the accused and adequately investigated the facts and the law; and whether the omissions charged to trial counsel resulted from inadequate preparation rather than from an unwise choice of trial tactics and strategy. *Eubanks* v. *United States*, 336 F.2d 269, 272 (C.A. 9, 1964); *Brubaker* v. *Dickson*, 310 F.2d 30, 32 (C.A. 9, 1962). The requirements of

due process of law and effective assistance of counsel do not demand "errorless counsel, and not counsel judged ineffective by hindsight, but counsel reasonably likely to render and rendering reasonably effective assistance." *Brubaker* v. *Dickson*, 310 F.2d 30, 37 (C.A. 9, 1962). The mere fact that a defendant is convicted, *De Roche* v. *United States*, 337 F.2d 606, 607 (C.A. 9, 1964); *cf. Mitchell* v. *United States*, 259 F.2d 787, 789 (C.A. D.C., 1958), *cert. denied*, 358 U.S. 850, or the fact that trial counsel was not errorless in every judgment or trial strategy, *Michel* v. *Louisiana*, 350 U.S. 91, 101 (1955); *Brubaker* v. *Dickson*, 310 F.2d 30, 37 (C.A. 9, 1962); *MacKenna* v. *Ellis*, 280 F.2d 592, 599 (C.A. 5, 1960), *modified on other grounds*, 289 F.2d 928 (C.A. 5, 1961), is insufficient to show denial of due process. Neither is the time consumed in oral discussion, legal and factual research, and "active" participation in the trial the crucial test of effectiveness of counsel. *De Roche* v. *United States*, 337 F.2d 606, 608 (C.A. 9, 1964); *United States* v. *Wright*, 176 F.2d 376, 379 (C.A. 2, 1949).

Therefore, in determining the propriety of trial counsel's performance, most reviewing courts, not being privy to all the circumstances confronting the advocate in the on-going trial, naturally are reluctant to criticize or second-guess the tactics and strategy he followed in the actual conduct of the trial. *See Tampa* v. *Virginia ex rel. Cunningham*, 331 F.2d 552 (C.A. 4, 1964); *United States ex rel. Weber* v. *Ragen*, 176 F.2d 579 (C.A. 7, 1949), *cert. denied*, 338 U.S. 809. Too often the allegedly defective tactics or strategy may be entirely consistent with effective advocacy, and may have been taken for perfectly proper reasons. Thus, where a questionable action is undertaken for reasons that would appear sound to a competent attorney, the conviction will not be reversed unless the defendant can prove serious prejudice. *See, e.g., Henry* v. *Mississippi*, 379 U.S. 443, 451-52 (1964).

In essence, Peter Unger's complaint that his counsel was incompetent and ineffective is based upon the alleged passiveness and inactivity of counsel during the trial. It is significant to note that in his brief Peter Unger's descrip-

tion of his attorney's representation throughout the proceeding distorts the facts in two material aspects. First, Peter Unger neglects to mention that his attorney, along with all other defense counsel, agreed to the "ground-rule" that a motion or objection by one would be a motion or objection for all defense counsel unless otherwise specified, so that the jury would not be misled or confused by the possible repetition of the same motion or objection by more than one defense counsel to the same matter. (See Tr. 71-73) Peter Unger gives little credence to the fact that before trial his counsel filed various motions on his behalf to obtain a severance of defendants (C.T. 86) and of offenses (C.T. 98), and a change of venue (C.T. 100); participated in each and every pre-trial conference; and was actively involved in discovery procedures. Moreover, during the course of the trial, his counsel made motions and arguments on Peter Unger's behalf for a directed verdict of acquittal at the close of the government's case on direct (Tr. 2269-76), and again after all the evidence had been presented (Tr. 2665). He also moved to strike certain language in the indictment (Tr. 2277; 2383). Second, Peter Unger asserts as an example of incompetent representation that his attorney was so confused that his argument for a directed verdict at the close of the government's case was based on the mistaken assumption that Peter Unger was a defendant in Count XIV instead of Count I. (P.U. Br. at 64) The portion of the transcript which is then quoted to substantiate the allegation of confusion and the conclusion of incompetency is taken completely out of context.[1] When viewed in proper context (Tr. 2271-72), it appears that the attorney's remarks about his client's lack of connection with the conspiracy he was not charged with—*i.e.*, Count XIV—were part of a discussion of his earlier motions for severance and change of venue and were not addressed to his motion for a directed verdict of acquittal. (See Tr. 2269-76)

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[1] In addition, Peter Unger's brief on appeal erroneously cites page 2664 of the transcript when the attorney's remarks in fact appear on pages 2271-72.

None of the cases cited by Peter Unger are factually relevant to the instant matter. For example, he cites *MacKenna* v. *Ellis*, 280 F.2d 592 (C.A. 5, 1960), *modified on other grounds*, 289 F.2d 928 (C.A. 5, 1961), where the reviewing court found that the defendant was unfairly prevented from presenting his defense in a fair trial by a "combination of circumstances," including the fact that the trial court appointed, over the defendant's protest, two young and inexperienced attorneys just out of law school who had employment applications then pending with the prosecutor's office, and the fact of "the trial court's insensitivity to the need for protecting the defendant from a hasty trial without notice and from the obvious errors of inexperienced appointed counsel." 280 F.2d at 603-604. Here, Peter Unger's court-appointed counsel, Thomas P. Price is an advocate with vast criminal trial experience, including the prosecution of over 130 major felony cases, and with vast civil litigation experience extending over more than ten years of active practice.[2]

An examination of the record similarly demonstrates that John Wagner's claim that the trial court deprived him of his chosen and paid attorney, and thereby denied him his sixth amendment right to counsel, is also spurious. Well in advance of trial, John Wagner's attorney, Robert Bunnett, was specially admitted to the bar of the United States District Court for the District of Oregon on January 25, 1967, and was then informed of the court's rule requiring him to associate with an active member of the bar of the State and of the Court. (Pre-Tr. 5, January 25, 1967) On March 1, 1967, Mr. Bunnett informed the court that he would be assisted by his brother who was associated with him in California, and that the Bunnett brothers proposed to try the entire case for John Wagner and another defendant with the assistance of an inexperienced local attorney. At this point, Chief Judge Solo-

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[2] For a full description of the legal experience of Thomas P. Price see the Price Affidavit contained in the Appendix to this brief.

mon advised Mr. Bunnett that local court rules[3] required the local attorney affiliated or associated with outside counsel in a case to participate meaningfully in the trial, and consequently it was suggested that John Wagner obtain a more experienced local counsel to be associated with his out-of-state counsel (Pre-Tr. 4-5, March 1, 1967). In making this suggestion, Chief Judge Solomon was not only complying with the spirit of the local court rule, but was protecting the defendant's right to assistance of effective and competent counsel.

On May 3, 1967, Judge Robert C. Belloni, the trial judge, suggested that the requirement of local counsel might be waived, allowing John Wagner to proceed to trial with counsel of his own choosing. But when the prosecution pointed out that it intended to call Mr. Bunnett as a government witness at the trial, he properly resigned from the case. (Pre-Tr. 3-4, May 3, 1967)[4]

On May 8, 1967, more than two months prior to the commencement of the trial, John Wagner was provided with new court-appointed counsel, Lewis Hampton, allowing ample time for consultation and preparation for trial. (Pre-Tr. 3, May 8, 1967) The record amply demonstrates that the trial court and the government afforded John Wagner and his defense counsel every consideration to assist them with their preparation for trial, including full

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[3] Section (c) of Rule 4 of the General Rules of the United States District Court for the District of Oregon states that:

> An attorney who is not an active member of the Oregon State Bar but who is a member in good standing of the bar of any other state or of any Court of the United States . . . may, upon oral motion, participate in the conduct of a particular case in this Court, but such motion shall be allowed only if he associates with him an active member in good standing of the Oregon State Bar and of this Court, who shall *meaningfully* participate in the preparation and trial of the case. (Emphasis added)

[4] Mr. Bunnett subsequently was called as a government witness at the trial and testified with respect to his activities as well as to the activities of John Wagner and other defendants during time periods and concerning activities relevant to the charges in the indictment. (Tr. 2007-2020)

and broad pre-trial discovery, frequent opportunities to use government facilities to contact and interview witnesses, and the availability of subpoenas at government expense for defense witnesses upon a reasonable showing that the witnesses were necessary for an adequate defense. Under these circumstances, the contention of John Wagner that his court-appointed counsel failed to present any defense because he was deprived of government funds and subpoenas is totally unfounded.[5]

## POINT SEVEN

### There Was No Error in the Procedures Followed by the Trial Court in Dealing With the Publicity Aspects of the Trial

All three defendants allege as reversible error the trial court's denial of the motion for mistrial and its failure to poll the jury when it was brought to the attention of the trial court on the second day of trial that two articles in Portland newspapers that morning and the night before were allegedly prejudicial to the defendants. (J.W. Br. Pt. B; P.U. Br. Pts. C and D; R.W. Br. Pt. IV A)

The determination of whether the defendants received a fair trial, including an impartially and uninfluenced decision by the trier of fact, *In re Murchison*, 349 U.S. 133, 136 (1955), involves an examination and evaluation of the interaction between the nature and extent of the pub-

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[5] *See* POINT FIVE, *supra*. The further allegation that the trial court's failure to appoint counsel for the corporate defendants, Golden Rule and GRR, also deprived John Wagner of his right to counsel are equally without merit. John Wagner was named in all counts in the indictment. The evidence convincingly established that John Wagner, admittedly the alter-ego of Golden Rule and GRR, was the driving force behind the implementation of the fraudulent scheme through these corporate vehicles. Consequently, all evidence introduced against the corporate defendants was, *a fortiori*, admissible against him. Furthermore, even after the corporations were dismissed from the trial as defendants, the jury was not precluded from finding that the corporations, acting through their agents, were co-conspirators, with the result that any corporate activities in furtherance of the conspiracy were properly admissible against John Wagner. *See Cornes* v. *United States*, 119 F.2d 127, 129 (C.A. 9, 1941).

licity, the number of actual or potential jurors aware of and exposed to possibly prejudicial information, and the extent to which the trial court *and* the defendants availed themselves of procedural safeguards. *Silverthorne* v. *United States*, 400 F.2d 627, 630 (C.A. 9, 1968). A consideration of these factors in light of prior determinations by many appellate courts, including the Supreme Court, in similar circumstances clearly demonstrates that there was no prejudice whatever to the defendants from the relatively little publicity about the case that did in fact appear in Portland newspapers before and during the trial, and that the trial court's frequent and strong admonitions to the jury, commencing even before the 12 jurors and 4 alternates were ultimately empanelled and continuing throughout the trial, were more than adequate to avoid or significantly to minimize even the possibility that prejudice might infect the jury's decision. In light of these factors, and the important consideration which must be given to the discretion of the trial judge, the one disinterested party most familiar with the local situation and all the circumstances of the trial, *see Dosek* v. *United States*, . . . F.2d . . . (C.A. 8, No. 19,103, Dec. 30, 1968); *Marshall* v. *United States*, 355 F.2d 999, 1007 (C.A. 9, 1966), *cert. denied*, 385 U.S. 815, it is submitted that the defendants were afforded a fair trial free from prejudicial extraneous influences at every stage of the proceeding.

During a pre-trial conference on March 30, 1967, Chief Judge Solomon, in discussing the question of publicity with both the government and the defense, pointed out that "this case has been singularly free of publicity in the last six or eight months," and wisely admonished all counsel to carefully refrain from generating publicity. (Pre-Tr. 2840, March 30, 1967) That counsel followed the Chief Judge's admonition, and that the case continued to be relatively free of publicity, are demonstrated by the fact that only three articles concerning any aspect of the case were published in Portland newspapers during the period from March 30 until the commencement of the trial. (J.W.

Br. Exs. 6-9) These three articles, all appearing on inside pages, were largely factual accounts of proceedings against some of the defendants, involving the Hollywood Towne House foreclosure, and were devoid of any inflammatory or sensational matter.

In this atmosphere free from even remotely prejudicial publicity, the trial court and counsel for the government and the defense undertook the selection of the jury on July 18, 1967. In conducting its voir dire of the talesman, using the so-called "Arizona Plan," [1] the trial court thoroughly examined the two veniremen who, in response to the trial court's inquiries about exposure to publicity about the defendants or the case, had indicated that they had read or heard something about the case. (Venireman Buhrle, Pre-Tr. 29, July 18, 1967; Venireman O'Conner, Pre-Tr. 31, July 18, 1967). Even before the final selection of the 12 jurors and 4 alternates, the trial court informed the 30 veniremen that "this may be a well-publicized case," and forcefully added, "I ask you to fastidiously avoid newspaper articles, those of you who are finally selected, relative to this case, keeping in mind that you will have presented to you all of the evidence needed to decide this case." (Pre-Tr. 37, July 18, 1967) After peremptory challenges were exercised, at which time the two veniremen who had indicated their exposure to publicity were excused (Pre-Tr. 48, July 18, 1967), no defense counsel exercised any challenges for cause. (Pre-Tr. 48, July 18, 1967) Before administration of the oath to the jurors, the trial court asked each counsel if he were satisfied with the 12 jurors and 4 alternates, and, without requesting or submitting further questions to supplement the trial court's voir dire or raising any challenge to the final composition of the jury, each counsel expressly indicated his satisfaction. (Pre-Tr. 48-49, July 18, 1967)

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[1] In *Silverthorne* v. *United States*, 400 F.2d 627 (C.A. 9, 1968), this Court did *not* hold that a trial court's en masse voir dire examination of the panel was improper in the ordinary case, but there held that the trial court had abused its discretion in not allowing polling of the jurors on voir dire "under the peculiar and difficult facts of this case." 400 F.2d at 640.

None of the cases cited by defendants to support the contention that the trial court erred in not individually questioning the veniremen with respect to exposure to publicity are apposite to the pre-trial circumstances of the instant case, characterized by the freedom from little, let alone prejudicial publicity. All of the cases cited by defendants which considered the adequacy and effectiveness of the methods and procedures followed by the trial court in the selection of the jury are characterized by the trial court's apparent disregard of the defendant's right to a fair trial in light of the massive and intensive pre-trial publicity.

Thus, in *Irvin* v. *Doud*, 366 U.S. 717 (1961), where "a barrage of newspaper headlines, articles, cartoons, and pictures was unleashed against [the defendant] during the six or seven months preceding his trial," 366 U.S. at 725, including publication of police press releases stating that he had confessed, 268 of the 430 veniremen were excused for cause as having fixed opinions as to the defendant's guilt, and 8 of the 12 jurors finally selected admitted that they thought the defendant was guilty but indicated that they could render an impartial verdict.

In *Rideau* v. *Louisana*, 373 U.S. 723 (1963), where a filmed twenty-minute "interview" of the defendant's confessing in detail to the sheriff in the jail was repeatedly broadcast over a local television station for three days, three members of the jury stated on voir dire that they had seen or heard the "interview," and two members of the jury were local deputy sheriffs. After defense counsel had exhausted all peremptory challenges, the trial court denied defense counsel's request that five veniremen be excused for cause.

In the landmark case of *Sheppard* v. *Maxwell*, 384 U.S. 333 (1966), the massive news coverage by all media during the entire pre-trial period contained virulent and incriminating publicity about the defendant and the murder, making the defendant "infamous" and the case "notorious." The media frequently aired charges and countercharges besides those for which the defendant was tried.

384 U.S. at 354. When 75 veniremen were called 25 days before trial, all 3 local papers published their names and addresses, resulting in their receiving "anonymous letters and telephone calls, as well as calls from friends, regarding the impending prosecution." 384 U.S. at 342. Every juror, except one, testified at voir dire to reading about the case in newspapers or to having heard broadcasts about it. 384 U.S. at 345. Despite this atmosphere of extensive, flagrant, inflammatory and intense publicity, the trial court refused to take any precautions against the influence of pre-trial publicity.

In the recent case of *Silverthorne* v. *United States*, 400 F.2d 630 (C.A. 9, 1968), where local newspaper and national magazine articles and extensive radio and television coverage "saturated" the local area with voluminous and sensational publicity about the defendant and all aspects of his private and public life, 400 F.2d at 631, every one of the 65 veniremen summoned admitted a knowledge of the case; and of the 43 panelists excused, 19 had expressed an opinion as to the defendant's guilt from what they had read in newspapers and seen or heard on news broadcasts. 400 F.2d at 635. The trial court in *Silverthorne*, denying that any prejudice existed because of the pre-trial publicity, denied defense counsel's request at the close of the first day's voir dire to examine the jurors individually, and continued to conduct a general and superficial voir dire examination of the prospective jurors.

As Justice Holmes astutely observed, "If the mere opportunity for prejudice or corruption is to raise a presumption that they exist, it will be hard to maintain jury trial under the conditions of the present day." *Holt* v. *United States*, 218 U.S. 245, 251 (1910). Therefore, it is well-established that the trial court has broad discretion in determining whether the effect of pre-trial publicity has diminished to the point where it no longer affects the defendants right to a fair trial by an impartial jury. *See, e.g., Beck* v. *Washington*, 369 U.S. 541, 556 (1962); *Beck* v. *United States*, 298 F.2d 622, 629 (C.A. 9, 1962), *cert. denied*, 370 U.S. 919. *See also Stroble* v. *California*, 343 U.S. 181, 192 (1952).

Moreover, the manner in which the trial court conducts the voir dire examination of prospective jurors will not be interferred with by a reviewing court unless there has been a clear abuse of discretion. *E.g.*, *Silverthorne* v. *United States*, 400 F.2d at 638. Under the pre-trial circumstances of the instant case, the trial court's manner of conducting the voir dire of the talesmen was well within its discretion. Furthermore, it is submitted that the failure of defense counsel to submit further questions to supplement the trial court's voir dire, to request individual examinations of the veniremen, to make any challenges for cause, or to challenge in any way the final composition of the 12 jurors and 4 alternates who ultimately convicted the defendants constituted a waiver of any objection based upon pre-trial publicity. *Beck* v. *Washington*, 369 U.S. at 558; *United States* v. *Ragland*, 375 F.2d 471, 475 (C.A. 2, 1967), *cert. denied*, 390 U.S. 925 (1968); *Fabian* v. *United States*, 358 F.2d 187, 191 (C.A. 8, 1966).

With respect to publicity during the trial, the trial court exercised great care to prevent the jury's exposure to any extraneous influences, and to dispel or significantly minimize the possibility of any prejudice, from the minimal and largely factual publicity that did arise. Thus, in addition to its strong admonition to the veniremen before the final selection of the jury to avoid any publicity that might occur (Pre-Tr. 37, July 18, 1967), the trial court again instructed the jury at the very beginning of trial on that same day to

> Fastidiously avoid any broadcasts and newspaper accounts of the trial. You need not feel that you will get valuable information from those sources that you won't get here, because you will recall again that this is sworn testimony, and information from the outside would only be detrimental to a fair evaluation of this case. (Tr. 4)

and then concluded that first day's session by cautioning the jury, "Please do not discuss the case, and remember the admonitions I have given you." (Tr. 9)

Defense counsel brought to the attention of the trial court, out of the presence of the jury on the second day of trial, July 19, 1967, two articles which appeared in Portland newspapers the night before and that morning,[2] and moved for a mistrial, and, in the alternative, for individual polling of the jurors, on the ground that the publicity was allegedly so prejudicial that the defendants were deprived of a fair trial. (Tr. 13-15) Both articles appeared on inside pages, were captioned by not unusually large or suggestive headlines, factually reported the commencement of the trial, and accurately recited the allegations of the indictment. Each article made a short, one-sentence reference to the outstanding perjury indictment against John Wagner and Christensen; one article expressly identified them, while the other article omitted their names. The trial court then collectively examined the jurors to determine whether they had been exposed to the newspaper publicity.[3] After learning that no juror had read or discussed either of the articles, the trial court denied the motion for mistrial by then continuing the proceeding. (See Tr. 16) Significantly, although defense counsel never

[2] One article, "6 Men, 3 Firms on Trial Here In Multimillion Realty Fraud," appeared on page 5 of the July 18, 1967 evening edition of the Oregon Journal. (J.W. Br. Ex. 10) The "rewrite" of the other article, "Trial Opens for Six Men Accused in Mortgage, Securities Fraud Scheme," appeared on page 15 of the July 19, 1967 late morning edition of the Oregonian. (J.W. Br. Ex. 11) The Oregonian "morgue" did not contain the early morning edition's article which was brought to the trial court's attention because it was substantially identical to the later appearing "rewrite" article. The inaccurate reference to this article in John Wagner's brief as appearing on July 10, 1967 is presumably a typographical error. (J.W. Br. Ex. 11)

[3] Ladies and Gentlemen of the jury, the Portland press, as was expected, did publish some matters concerning this case. There is nothing wrong with that in and of itself. However, the articles were not entirely accurate, and had you read them and believed them, it would be a matter unfairly prejudicial to some of the defendants in this case. Of course, I have asked you not to read them, but I do want to know whether any of you did? (No response.) All right. Then I assume that none of you have read the articles or none of them have been discussed in detail by you or your husbands or other family members or any other persons. If this isn't the case, please let me know. (No response.) (Tr. 18-19)

again brought the fact of publicity to its attention, the trial court thereafter frequently and strongly admonished the jurors not to read, see or listen to any publicity, specifically including newspaper reports, relating to the case.[4]

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[4] At the close of the afternoon session, that second day:

> Many people believe that when a Judge tells the jury not to read newspapers, that the first thing they do is rush out and start reading them. I don't believe that is true. I don't believe it is true, because you didn't the last time and because you took the oath to try this case fairly, and you are not going to rush out to read the newspapers.
>
> Now, I am not critical of the newspapers. I have no reason to be critical. They write the truth as they see it. . . . Therefore, there are going to be some inaccuracies, and if those inaccuracies are read by you people, they will not serve the cause of justice. Somebody will be treated unfairly. That is not sworn testimony, and it is fine for a purpose. But the purpose isn't evidence in this case. So make a studious effort, if you will, and I ask you again to avoid reading or listening to conversations or news broadcasts about this case. (Tr. 191-93)

At the close of the afternoon session, fourth day:

> Continue your practice, if you will, Ladies and Gentlemen, of avoiding publicity on this case. (Tr. 726)

At the close of the afternoon session, eighth day:

> Ladies and Gentlemen, you will be excused until tomorrow morning at 9 o'clock. Please do not discuss the case or form an opinion, and please avoid press accounts and broadcast accounts of the trial. You are excused. (Tr. 1642)

At the close of the afternoon session, ninth day:

> Ladies and Gentlemen, we stand in recess until 9 o'clock Monday morning. I will ask you again to please, as you have been, refrain from discussing the case or reading newspaper accounts or any broadcasts or any communication from anybody about this case. Please do not form an opinion at this time. (Tr. 1816)

At the close of the afternoon session, eleventh day:

> Please avoid newspaper accounts of the trial and avoid television and radio broadcasts. Please do not discuss the case nor form any opinion. (Tr. 2094)

At the close of the final afternoon session, thirteenth day, after all the evidence had been presented and before the trial court's charging the jury the next morning:

> Please do not discuss the case, either among yourselves or with anyone else. Please do not read the public press. It is no reflection on the press to tell you that it would be prejudicial

Moreover, whatever newspaper publicity that did arise during the rest of the trial consisted of routine news articles appearing on inside pages and containing factual accounts of what had transpired at trial.

The assessment and evaluation of the nature and possible effect of the possible exposure of jurors to prejudicial information, and the determination of what procedural safeguards should be followed to accord defendants a fair trial free from extraneous influences is a matter committed to the sound discretion of the trial court under the special facts of each case. *E.g.*, *Marshall* v. *United States*, 360 U.S. 310, 312 (1959); *Cohen* v. *United States*, 297 F.2d 760, 764 (C.A. 9, 1962), *cert. denied*, 369 U.S. 865. Where pre-trial publicity has been minimal, factual and devoid of any sensational or inflammatory matter, and the trial court's admonitions to the jurors have been repeated and emphatic, as here, in the absence of a strong showing of *actual* prejudice resulting from a juror's reading, seeing or hearing the offending information, reviewing courts will *not* presume that the jurors have disregarded the trial court's instructions. *E.g.*, *Silverthorne* v. *United States*, 400 F.2d at 641; *Beck* v. *United States*, 298 F.2d 622, 629 (C.A. 9, 1962), *cert. denied*, 370 U.S. 919; *Cohen* v. *United States*, 297 F.2d 760 (C.A. 9, 1962), *cert. denied*, 369 U.S. 865. Consequently, reviewing courts are reluctant, without compelling and exceptional reasons, to substitute their judgments for that of the trial court, which has had better opportunity to observe and evaluate the jurors and the local atmosphere, as reflected in the news media, at the time and place of trial. *E.g.*, *Marshall* v. *United States*, 355 F.2d 999, 1006 (C.A. 9, 1966), *cert. denied*, 385 U.S. 815; *see Sheppard* v. *Maxwell*, 384 U.S. 333 (1966); *Silverthorne* v. *United States*, 400 F.2d 627

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to one or more or perhaps all parties of this case for you to read it. It is not written for the same reason that the testimony is given here. It is not required that they write with the technical accuracies necessary in a trial of the case. Therefore, just simply avoid newspaper accounts or broadcast accounts of the trial until it is all over. Then perhaps maybe your husbands or wives will save them for you, and you can read them then. (Tr. 2680-81)

(C.A. 9, 1968); *Yates* v. *United States*, 225 F.2d 146 (C.A. 9, 1955), *reversed on other grounds*, 354 U.S. 298 (1957).

The facts and circumstances of the instant case do not even remotely resemble those found by reviewing courts in the cases cited by the defendants to substantiate the contention that the trial court erred in denying the motion for mistrial and in failing to individually poll the jurors with respect to their exposure to the two newspaper articles brought to the court's attention on the second day of trial. Almost all of the cases cited by defendants involved so massive and voluminous a deluge of virulent, inflammatory and sensational publicity, often by all mass communications media, both before and during the trial that the reviewing courts felt compelled, without requiring a showing of actual jury exposure to the publicity, to presume that the defendants were prejudiced by such widespread and offensive publicity.

Thus, in *Coppedge* v. *United States*, 272 F.2d 504 (C.A. D.C., 1959), *reversed on other grounds*, 369 U.S. 438 (1962), in the presence of the jury, a witness refused to take the stand and be sworn. Out of the presence of the jury, the witness' counsel advised the court that his client refused to testify out of fear of the defendant because he had seen the defendant violently assault his brother. The prosecutor corroborated the witness' fear and observed that the defendant was a "vicious criminal." Both area newspapers published accounts of this incident, and one also stated that the defendant was then incarcerated for assaulting the witness' brother and quoted the trial court as saying that neither the prosecutor nor the police could guarantee protection of the witness. When the defense presented the articles to it, the trial court asked the jurors collectivey whether any of them had read either of the articles. Despite the fact that 4 regular jurors and one alternate juror indicated their exposure to the prejudicial publicity, the trial court denied the defense request to interrogate the jurors individually when the jurors, by their silence to the trial court's inquiry, indicated to the trial

court that they could ignore the articles. Significantly, the trial court had not specifically admonished the jurors prior to this incident to avoid exposure to publicity, and it made no reference to the matter in its final instructions. Finding the trial court's general and very brief inquiry of the jury as a whole inadequate, the reviewing court held that the nature of the articles and the actual reading of them by members of the jury required a careful individual examination of the jurors involved as to the possible effect of the articles. 272 F.2d at 507. The reviewing court, however, recognized that:

> *This was not a case in which a juror merely read in a newspaper a factual account of what had transpired in the courtroom in his presence.* These articles—properly enough from the newspaper's point of view—contained additional facts, facts which the jurors were not entitled to know about the defendant, and which were devastating to his cause. 272 F.2d at 508 (Emphasis added).[5]

In *United States* v. *Accardo*, 298 F.2d 133 (C.A. 7, 1962), the reviewing court held that the general nature of the trial court's admonitions at the beginning of trial, its failure to call the jurors attention frequently and specifically to the possibility of prejudicial newspaper publicity, and its assumption of the effectiveness of its general instructions were inadequate to protect the defendant from

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[5] Similarly, in *Mares* v. *United States*, 383 F.2d 805 (C.A. 10, 1967), a case cited by the defendants which did not involve voluminous publicity before or during the trial, a newspaper article appearing under "a bold and prominent headline" reading "Robbery Confession Admission Denied" reported the trial court's ruling, out of the presence of the jury, that testimony of defendants' withdrawn guilty pleas and admissions of complicity in the crime was inadmissible. In addition to reporting the trial court's statements inexactly and out of context, and subjectively observing that the trial court's decision was "obviously reluctant" and "apologetic," the article quoted the trial court as saying that it "was regretful when true facts have to be omitted." 383 F.2d at 807. The appellate court reversed the conviction and remanded for a new trial on the ground that the trial court erred in making no attempt at all to determine whether the jurors had been exposed to the extremely prejudicial publicity. 383 F.2d at 809.

massive and intensely prejudicial newspaper publicity which continued throughout the almost nine week trial. At each step of the proceedings, the public was bombarded with "flaming headlines" in newspapers, captioning articles which depicted the defendant as a notorious criminal associated with "syndicate hoodlums" who "had beaten" 14 detailed charges over more than 25 years and which compared the defendant's trial with Al Capone's trial 29 years before, further characterizing the defendant as a "jet-age Capone." The television and radio reporting of the trial was equally vivid and sensational. Despite frequent defense requests to question the jurors individually about exposure to this widespread, inflammatory and devastating publicity, the trial court only questioned the jury generally, and when one juror did admit she had seen a headline, the trial court did not privately inquire in detail about her exposure or about any possible prejudicial effect. In reversing the conviction, the reviewing court pointed out that "*under the 'special facts' of this case*, we conclude that the rulings failed to provide adequate precautionary measures in aid of defendant's right to a fair trial." 298 F.2d at 136 (Emphasis added).

In *Estes* v. *Texas*, 381 U.S. 532 (1965), massive pretrial publicity had given the defendant and the case national notoriety, and four jurors empanelled at trial had seen and heard all or part of a highly publicized 2-day pretrial hearing in which the trial court denied defense motions for a continuance based on pre-trial publicity and for an order preventing radio and television broadcasts and news photography during the trial. Also, film-clips, videotapes and "live" coverage were broadcast on news programs during the trial. The Supreme Court found that the trial court's procedures involved such a probability of prejudice that the trial was inherently lacking in due process, and reversed the conviction. In finding that the case was one of those instances in which a showing of actual prejudice is not a prerequisite to reversal, the Court did however observe that "It is true that in most cases involving claims of due process deprivations we re-

quire a showing of identifiable prejudice to the accused." 381 U.S. at 542.

In *Sheppard* v. *Maxwell*, 384 U.S. 333 (1966), where the massive, virulent and incriminating pre-trial publicity continued unabated during the trial, the flagrant and intense publicity was brought to the trial court's attention, but it took no action to insulate the jurors from it or from the "carnival" and "Roman holiday" atmosphere of the trial. 384 U.S. at 345, 353, 356-58. As the trial progressed, the newspaper summarized and interpreted the evidence, and often drew unwarranted inferences from the testimony and even from material which was never heard from the witness stand. The trial court did collectively examine the jurors once, and two jurors admitted hearing highly inflammatory matters, but the trial court refused to take any precautions to protect the jurors or witnesses from hounding by news media and exposure to sensational and inflammatory publicity, or to control the release of leads, information and gossip to the news media by police officers, witnesses, and counsel for both sides. In reversing the conviction, the Supreme Court found that actual prejudice had infected the jury and the trial. 384 U.S. at 357.

In *Silverthorne* v. *United States*, 400 F.2d 627 (C.A. 9, 1968), there was no doubt that the jurors were exposed to the voluminous and sensational publicity about the case and the defendant and all aspects of his private and public life which had saturated the local area not only in local newspaper and national magazine articles but also on radio and television broadcasts for almost a year between the time of the bank failure and the trial. When the bailiff informed the trial court that one juror had collected all the newspaper articles relating to the trial in the jury-room and that the jurors were reading them there, the trial court denied a motion to prohibit that inherently prejudicial practice, and denied frequent defense motions for mistrial without ascertaining by individual questioning of the jurors whether any of them had been reading the publicity and what effect such exposure had on them.

After examining the vast and clearly prejudicial publicity surrounding every aspect of the trial, this Court reluctantly stated that:

> We have no recourse, in light of this incident [newspaper articles in the juryroom], but to lay the ordinary assumption aside and to attribute little if any weight to the court's repetitive admonitions that the jurors should read or hear nothing about the case. 400 F.2d at 641.

and concluded that:

> Our evaluation of the publicity surrounding appellant's trial and the methods and procedures adopted by the trial court with respect thereto, compel the conclusion that appellant was not accorded a fair trial, free from prejudice or, as the more recent cases require, free from the probability of prejudice. 400 F.2d at 630.

Despite John Wagner's preposterous assertion that he was the Don Silverthorne of Portland, and his bold implications that he was also treated as unfairly as a Dr. Sam Sheppard, a Billy Sol Estes or a Tony Accardo, the record establishes that he was a relatively unknown conspirator who began exploiting victims in the tiny village of Elsinore and who, along with his co-defendants, victimized property holders throughout the West, until they were justly and fairly convicted for their misdeeds. An examination of what transpired in the instant case clearly demonstrates the total absence of the inherently prejudicial publicity read, seen or heard by the jurors in *Coppedge*, *Accardo*, *Estes*, *Sheppard* and *Silverthorne*. In striking contrast to the offensive circumstances found in the cases cited by defendants, there was no showing made in the instant case that any juror was exposed to the infrequent and factual publicity which preceded the trial or which arose during the trial. In further contrast, the trial court repeatedly gave strong, specific admonitions to the jurors, commencing at the very time they were being empanelled and extending throughout the trial, to assure

that the defendants would not be prejudiced from news coverage of the case. When the two new articles were brought to its attention, the trial court wisely exercised its discretion in not polling each juror, after the jury's collective negative responses to his inquiries, for to do so may well have prejudiced the defendants by calling the jurors' attention to the articles to which they had not been exposed, and by "incit[ing] their joint or individual curiosity and encourag[ing] attempts to read the very newspaper articles sought to be kept from their knowledge." *Silverthorne*, 400 F.2d at 641, 643. Thereafter, the trial court continued to forcefully and frequently admonish the jury to avoid exposure to any newspaper, radio or television publicity about the case, thereby dispelling and significantly minimizing the possibility that publicity would infect the proceeding and deprive the defendants of a fair trial. The record overwhelmingly establishes that the methods and procedures adopted by the trial court assured the defendants a fair trial free from prejudicial extraneous influences. Their patently speculative conjecture that the jurors *must* have been exposed to prejudicial publicity is spurious. *Beck* v. *Washington*, 369 U.S. at 558; *Fabian* v. *United States*, 358 F.2d 187, 191 (C.A. 8, 1966).

## POINT EIGHT

### Statements Made by Peter Unger to F.B.I. Agents and a Deposition of John Wagner Were Properly Admitted Into Evidence

#### A. *Peter Unger's Statements to F.B.I. Agents Were Properly Admitted*

Peter Unger claims that the trial court erred in admitting into evidence his pre-indictment statements to two F.B.I. agents because he had not been given in *haec verba* the warnings required by *Miranda* v. *Arizona*, 384 U.S. 436 (1966), and asserts that his court-appointed counsel's

failure to object to the testimony of the agents should not be construed as a waiver because of his counsel's alleged incompetency. (P.U. Br. Pt. I) However, the record demonstrates that the warnings given to Peter Unger prior to any questioning sufficiently apprised him of his constitutional rights, and that he was fully aware at all times that he could avail himself of his constitutional privileges, including his right to counsel. The now-challenged testimony of the two F.B.I. agents was based on agent McCloskey's two interviews with Peter Unger at the F.B.I. office in Las Vegas on May 17, 1966 and June 1, 1966, and on agent Neves' interview with him in Peter Unger's own apartment in Roseville, California on August 29, 1966.[1]

Agents McCloskey and Neves both testified that on each occasion that they interviewed Peter Unger, he was advised of his constitutional rights. (Tr. 1584, 1590, 1602) The F.B.I. memorandum of the May 17, 1966 interview indicates that Peter Unger appeared voluntarily in the F.B.I. offices in Las Vegas and was warned by agent McCloskey that

> he need furnish no information before consulting with an attorney of his own choice, that any information he did furnish could be used against him in a court of law, and that any information he did furnish is considered free and voluntary on his part.

The memorandum of the June 1, 1966 interview indicates that Peter Unger again voluntarily appeared at the

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[1] On July 27, 1967, the government lodged with the Clerk of the Court for purposes of the record in this case the memoranda of these interviews contemporaneously executed by the two agents, copies of which had therefore been provided to all defense counsel. *See* Affidavit of Alice Stordahl Russell in the Appendix. The trial record mistakenly reflects the date of the first McCloskey interview as November 17, 1966. Apparently counsel for the government incorporated this wrong date in his questioning of McCloskey (Tr. 1584), but McCloskey's memoranda of interviews substantiate that the first interview was actually conducted on May 17, 1966. Subsequent questioning of McCloskey in the trial record bears this out. (Tr. 1590)

F.B.I.'s office in Las Vegas, where agent McCloskey similarly advised him in almost identical terms, at the very outset that

> he need furnish no information of any kind before consulting with an attorney of his own choice, that any information he did furnish could be used against him in a court of law, and that any information he did furnish is considered free and voluntary on his part.

and that Peter Unger then advised McCloskey that "he wished to continue to cooperate in this matter, that he did not need an attorney, . . ."

The memorandum of the August 29, 1966 interview which was conducted in his own apartment indicates that Peter Unger was furnished at the very outset with the following statement of "YOUR RIGHTS":

> Before we ask you any questions, you must understand your rights. You have the right to remain silent. Anything you say can be used against you in court. You have the right to talk to a lawyer for advice before we ask you any question, and to have him with you during questioning. You have this right to advice and presence of a lawyer even if you can not afford to hire one. We have no way of giving you a lawyer, but one will be appointed for you, if you wish, if and when you go to court. If you wish to answer questions now without a lawyer present, you have the right to stop answering questions at any time. You also have the right to stop answering at any time until you talk to a lawyer.

and that he then signed the following "WAIVER":

> I have read the statement of my rights shown above. I understand what my rights are. I am willing to answer questions and make a statement. I do not want a lawyer. I understand and know what I am doing. No promises or threats have been made to me and no pressure of any kind has been used against me.

The record further reveals that during the pre-trial hearing of May 25, 1967, the trial court raised the question of the voluntariness of any admissions that the government could introduce at trial, and stated:

> If any issue of the voluntariness should arise, I ask that the defendant whose admission is anticipated in evidence will make a request that the hearing be held at an early date. If after a full disclosure by the Government of whatever admissions the Government intends to introduce, then I would feel that the onus is upon the defendants' attorney to request an advance hearing if there is a question of voluntariness of those admissions. (Pre-Tr. 7-8, May 25, 1967)

Also during that proceeding, the government informed the trial court that all admissions that the government might intend to use, including depositions taken of and statements made by defendants, had been given or made available to the defendants at that time, and that if there were other admissions, they too would be turned over. (Pre-Tr. 24, May 25, 1967) This representation by the government was confirmed by Peter Unger's attorney at the outset of his cross-examination of agent McCloskey when he stated for the record and for the jury's edification that the government had given him copies of the memoranda McCloskey was referring to "well in advance of these interviews." (Tr. 1600)

Even if the warnings had been deficient, which they plainly were not, any objection to the receipt into evidence of the statements made to the F.B.I. agents was waived since defense counsel had been provided well in advance of trial with copies of the F.B.I. memoranda, had failed to make any pre-trial objections in accordance with the procedures set down by the trial court, and had failed at the trial to object to the testimony or to the adequacy of the foundation laid for its admission.

It is significant to note that both McCloskey interviews occurred prior to the Supreme Court's landmark *Miranda* decision on June 13, 1966, and that at the post *Miranda*

interview by Neves, Peter Unger was given a full "Miranda-type" warning in writing. Obviously, these interviews of Peter Unger were non-custodial interrogations which did not restrict his freedom of action in any significant way, *see Miranda* v. *Arizona*, 384 U.S. 436 (1966); *Escobedo* v. *Illinois*, 378 U.S. 478 (1964), and any information he did furnish and any statements he did make were voluntary acts and clearly not induced by stealth, trickery or misrepresentation. *See, e.g., Kohatsu* v. *United States*, 351 F.2d 898, 902 (C.A. 9, 1965), *cert. denied*, 384 U.S. 1011 (1966); *United States* v. *Sclafani*, 265 F.2d 408, 414-15 (C.A. 2, 1959), *cert. denied*, 360 U.S. 918. The warnings later espoused by *Miranda* and subsequent cases to be given to "suspects" during a "custodial" interrogation do not vitiate the fact that Peter Unger was adequately warned and aware of his constitutional rights during the first two interviews. The third interview by Neves occurred subsequent to the *Miranda* decision. Significantly, this interview took place in Peter Unger's own apartment, away from the coercive atmosphere and influences of the custodial interrogations condemned by *Miranda* and subsequent cases. *See Dosek* v. *United States*, ...... F.2d ...... (C.A. 8, No. 19,103, Dec. 30, 1968). *Compare Mathis* v. *United States*, 391 U.S. 1 (1968), *with White* v. *United States*, 395 F.2d 170 (C.A. 8, 1968), *petition for cert. filed sub nom., Kubik* v. *United States*, 4 Crim. L. Rptr. 4020 (Oct. 2, 1968) (No. 309) *and Kohatsu* v. *United States*, 351 F.2d 892 (C.A. 9, 1965), *cert. denied*, 384 U.S. 1011. Under the circumstances, it would be incredulous to find that Peter Unger was "in custody" at the time of the interviews; however, even if he had been, the warnings given would have satisfied the requirements of *Miranda* and later decisions.

The cases cited by Peter Unger do not support a contrary conclusion. *Mathis* v. *United States*, 391 U.S. 1 (1968), was a "custody" case where the defendant was in jail when he was questioned and was given no warning whatsoever. Neither *Chapman* v. *California*, 386 U.S. 18 (1967), nor *Carnley* v. *Cochran*, 369 U.S. 506 (1962),

dealt with the "warnings" question. The recent decision of *White* v. *United States*, 395 F.2d 170 (C.A. 8, 1968), *petition for cert. filed sub nom., Kubik* v. *United States*, 4 Crim. L. Rptr. 4020 (Oct. 2, 1968) (No. 309), rather than supporting Peter Unger's factually weak claim, clearly demonstrates that statements of a defendant to a government agent are admissible where the disclosures are entirely voluntary and were not induced by custodial interrogation, or by coercion, fraud or misrepresentations, but were made in familiar surroundings when the agent was making a conscientious effort to inform the defendant of the purpose of his questions. 395 F.2d at 174-75.

Peter Unger's assertion that his court-appointed counsel's failure to object to the admission of his statements should not be treated as a waiver because of that counsel's incompetency is frivolous and is not borne out by the record.[2]

### B. *John Wagner Was Not Prejudiced by the Admission Into Evidence of Peter Unger's Statements.*

John Wagner claims that he was so severely prejudiced by the trial court's admission into evidence of Peter Unger's statements to government agents, purportedly incriminating him, that the trial court's limiting instructions to the jury did not cure the prejudice. (J.W. Br. Pt. J) After each of the two agents testified on direct examination with respect to their interviews with Peter Unger, and before cross-examination of each agent, the trial court instructed the jury not to consider the testimony of that witness as evidence against either John Wagner, Robert Wagner, or the other defendants then in the case. (Tr. 1599, 1607) John Wagner's attorney did not cross-examine either agent. However, John Wagner's attorney did cross-examine Peter Unger when he later took the stand and testified in his own behalf. (Tr. 2364-70)

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[2] *See* POINT SIX, *supra.*

An examination of all the evidence introduced at trial clearly demonstrates that the government's case against John Wagner was substantial.[3] The likelihood that those parts of Peter Unger's statements which mentioned John Wagner added significantly to the weight of the government's case against John Wagner or prejudiced him in the eyes of the jury is minimal. Moreover, whatever insignificant effect these statements may have had was obviated and dispelled by the trial court's limiting instruction and its subsequent charge to the jury (Tr. 1599, 1606-07), and by the crucial fact that Peter Unger took the stand, thereby affording John Wagner the opportunity to confront and cross-examine him with respect to the statements. *See Bruton* v. *United States*, 391 U.S. 123 (1968); *Douglas* v. *Alabama*, 380 U.S. 415 (1965); *Pointer* v. *Texas*, 380 U.S. 400 (1965); *United States* v. *Levinson*, ...... F.2d ...... (C.A. 6, Nos. 18204 et seq., Dec. 30, 1968); *Santoro* v. *United States*, ...... F.2d ...... (C.A. 9, 1968).

### C. *The Deposition of John Wagner Was Properly Admitted*

John Wagner claims that the trial court erred in admitting into evidence portions of his deposition "in the collateral civil matter" after he had objected to the introduction on the ground that he had not been properly advised of his constitutional rights. (J.W. Br. Pt. H) The deposition was obtained on May 4 and 5, 1966 pursuant to a subpoena duces tecum issued in connection with the Hollywood Towne House foreclosure proceeding filed on March 17, 1966. *United States* v. *Hollywood Towne House* (D.Ore., 66 Civ. 160). When John Wagner, accompanied by his attorney Robert Bunnett, appeared at the United States Courthouse in Portland, he was first duly sworn and then, prior to any questioning, he was advised in the presence of his attorney by the Assistant United States Attorney, as follows:

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[3] *See* POINT ONE, *supra*.

> Mr. ROSE: Before I proceed, I would like to give you one further warning. As you know, *you are here with Counsel*, and under the Constitution *you have the right to refuse to answer any question you might feel incriminating from a personal standpoint*, and I believe, *Counsel, you have probably advised your client along these lines?*
>
> Mr. BUNNETT: Yes.
>
> Mr. ROSE: So it is not necessary for me to go into any length about that, so *if there is any time you want to refuse to answer feel free to do so.*
>
> (Tr. 2159-60) (Emphasis added)

It is submitted that in light of the adequate warning given to John Wagner by Mr. Rose on the record in the presence of his attorney Mr. Bunnett, coupled with John Wagner's silence when Mr. Bunnett acknowledged that he had also warned John Wagner of his rights, it would be preposterous to believe John Wagner's subsequent claim of ignorance that in reality he did not understand and was not told by Mr. Bunnett that his testimony could be used against him.

## POINT NINE

### The Trial Court Did Not Err in Informing the Jury of the Nolo Contendere Pleas of Several Defendants

John Wagner alone claims that it was error for the trial court to have informed the jury that defendants Christensen and Jongeward had pleaded nolo contendere to the charges against them during the course of the trial (J.W. Br. Pt. M), and that the trial court's cautionary instructions did not cure the prejudicial effect of the remarks. Moreover, he argues that he was also prejudiced by the fact that a newspaper article commented on Christensen's nolo plea by stating, "Judge Robert C. Belloni explained that the plea could have the same effect as a guilty plea" (See J.W. Br. Ex. 23), whether or not a juror had read the article, because "it is safe to assume that they probably knew or considered Nolo as the equiv-

alent of guilty." (J.W. Br. at 72-73) These two contentions are without merit when considered in light of the facts of the trial and the existing case law.

A review of the record clearly discloses that the trial court, from the very first day of the trial, cautioned and admonished the jury that not only the pleas of nolo contendere by some defendants but also the dismissals against other defendants had no bearing whatsoever on the guilt or innocence of the remaining defendants, and that the jury was to determine the guilt or innocence of each of the remaining defendants solely upon consideration of the evidence introduced at trial.[1]

During the second week of trial, out of the presence of the jury, Christensen entered a plea of nolo contendere. The trial court accepted the plea and informed the defendants and their counsel that it intended to inform the jurors of the fact that Christensen had entered a nolo plea, and to instruct them that this plea had no bearing on the guilt or innocence of the other defendants. (Tr. 1341) The trial court invited comments by counsel as to whether this was an improper instruction, but received no comment. The jurors were then recalled and instructed as follows:

> Ladies and Gentlemen, Mr. Colman Christensen has entered a plea of nolo contendere in this case as to all counts against him. He is no longer in the case for any purpose. The other five defendants and three corporate defendants are still in the case. *This action by Mr. Christensen and this plea has no bearing whatsoever upon the guilt or innocence of any of the other defendants in the trial which will proceed with them as parties, but leaving Mr. Christensen completely out of the case.* (Tr. 1342-43) (Emphasis added)

This same situation occurred during the subsequent course of the trial when Jongeward, out of the presence

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[1] Prior to the trial, the indictment was dismissed against Shubin, and Stewart entered a plea of nolo contendere. (Tr. 5-6)

of the jury, entered a plea of nolo contendere. The trial court then informed the jurors of this occurrence and instructed them as follows:

> Ladies and Gentlemen of the jury, Mr. Gordon Jongeward, the Defendant Gordon Jongeward, has entered a plea of nolo contendere in this case to all of the charges against him, Counts 1 through 14, with the exception of Count 12 which was dismissed. So he is no longer in this case. *This action by this defendant has no bearing whatsoever and is not to be considered by you in evaluating either the guilt or the innocence of any other defendant in this case.* (Tr. 1778) (Emphasis added)

After closing arguments on August 3, 1967, out of the presence of the jury, the trial court heard "last claims." With respect to instructing the jurors about the dismissals of the three corporate defendants, the trial court stated it would tell them: "It is simply not a matter to be considered. There are only three defendants in this case, and they are sitting out there. And whatever happened to the others, whether they were guilty pleas, nolo pleas, dismissals, or any other reason, has no bearing upon their guilt or innocence." (Tr. 2677) No objections were made by defense counsel to the proposed instruction.

On August 4, 1967, in discussing the proposed jury instructions, the trial court urged defense counsel to "complain freely if you dispute" the substance or the legal accuracy of any of the instructions. The trial court then stated, "I make a point out of the fact . . . that nolo contendere pleas have been entered, which means nothing to this jury . . . ." (Tr. 2684) Defense counsel made no comments and took no exceptions to the proposal either then or after the instruction was delivered to the jury. The instruction read as follows:

> The three defendants are charged here as three individuals, and the guilt or innocence of each defendant must be passed upon by you separately pursuant to and in accordance with my instructions. You are

> to determine the guilt or innocence of these defendants from evidence before you. You are not called upon to return a verdict as to the innocence or the guilt of any other person or persons, so if the evidence convinces you beyond a reasonable doubt of the guilt of the defendants, or any of them, you should so find, even if you believe one or more other persons also are guilty.
>
> As I told you during this trial, Alvin R. Stewart, Colman Carl Christensen, and Gordon Z. Jongeward have entered pleas of nolo contendere to certain counts in the indictment. The fact that they have entered pleas does not necessarily mean that they alone are responsible for the crimes charged in the Indictments, nor does it necessarily mean that each or any of the other defendants is guilty. Guilt or innocence of the defendants who are on trial must be determined by you solely on the evidence introduced at this trial. (Tr. 2720-21)

The trial court's accurate and informative explanations and instructions to the jury, as set out above, were both proper and necessary because of the number of defendants in the case, the length of the indictment and the fact that it was taken into the jury room during the deliberations, and the participation and appearance of several defendants in the courtroom after they no longer were defendants in the trial. Under these circumstances, the unexplained and sudden absence from the case and the courtroom of one or more of the named or participating defendants would surely and inevitably have raised great curiosity, and perhaps confusion, in the minds of the jurors. *See Nemec* v. *United States*, 178 F.2d 656, 661 (C.A. 9, 1949). Thus, rather than prejudicing the remaining defendants, the trial court's numerous instructions kept the issues and the remaining defendants in proper focus and prevented the jury from unwarranted speculation and improper influence-drawing about the disappearances from the case. *See United States* v. *Aronson*, 319 F.2d 48, 50-51 (C.A. 2, 1963), *cert. denied* 375 U.S. 920; *Nemec* v. *United States*, 178 F.2d at 661.

While the government has been unable to find any appellate decisions involving the propriety of informing the jury of a nolo contendere plea of a co-defendant, the cases are legion that it is proper for the trial court to inform the jury of a co-defendant's guilty plea with proper cautionary instructions.[2] *A fortiori*, these cases are determinative here. In *Davenport* v. *United States*, 260 F.2d 591 (C.A. 9, 1958) *cert. denied*, 359 U.S. 909 (1959), two of seven defendants pleaded guilty during the course of the trial of a multi-count indictment. With respect to the first defendant's plea, the court stated to the jury:

> We are not going to try Mr. Errion here any longer. He has pleaded guilty. He is safely in jail. I think we have all we can do to try the other six defendants that are here without discussing Mr. Errion any further. 260 F.2d at 595.

In its final instructions to the jury the court stated, "The pleas of Errion and Montgomery are no evidence of the guilt of any of the defendants nor evidence that a crime was committed." 260 F.2d at 596. This Court found no error in these instructions.

Similarly, in *Wood* v. *United States*, 279 F.2d 359 (C.A. 8, 1960), two of the nine defendants withdrew their pleas of not guilty and entered pleas of guilty before trial, and three more did so during the trial. The court affirmed the trial court's denial of a motion for mistrial based upon the pleas of guilty and the trial court's advising the jury of the guilty pleas, and approved the following instruction to the jury by the trial court:

> I want to tell you again the fact that such pleas were entered does not mean that the remaining three defendants on trial . . . are guilty with them. The pleas are not evidence to the defendants remaining

[2] *See, e.g., United States* v. *Light*, 394 F.2d 908 (C.A. 2, 1968); *United States* v. *Aronson*, 319 F.2d 48 (C.A. 2, 1963), *cert. denied*, 375 U.S. 920; *Wood* v. *United States*, 279 F.2d 359 (C.A. 8, 1960); *Davenport* v. *United States*, 260 F.2d 591 (C.A. 9, 1958), *cert. denied*, 359 U.S. 909 (1959); *Nemec* v. *United States*, 178 F.2d 656 (C.A. 9, 1949).

> on trial that they are guilty, or the crime charged in the indictment was committed.
>
> These pleas do not give rise to any inference as to the guilt or innocence of the defendants here on trial. The guilt or innocence of the defendants still on trial must be determined solely by you, solely by the evidence introduced in the trial of this case. 279 F.2d at 362.

Thus, it is well-settled that it is not error, if proper cautionary instructions are given, for the trial court to inform the jury that one or more co-defendants have entered pleas of guilty. Here, the trial court's meticulous efforts by cautionary instructions and admonitions to inform the jury of the issues to be determined by them and to keep the remaining defendants in proper focus conformed both adequately and accurately to the instructions approved by this and other appellate courts in similar circumstances.[3] Furthermore, when the trial court informed the defendants and their counsel, out of the presence of the jury, of his intention to instruct the jury in connection with Christensen's plea of nolo contendere (Tr. 1391), there were no objections or exceptions taken to the proposed instruction. It submitted that there was no criticism then, and there can be no criticism now, because the trial court's instructions were entirely proper.

The further argument by John Wagner that he was prejudiced by the statement in the newspaper, purportedly quoting Judge Belloni's comment regarding Christensen's nolo plea, has no merit. The newspaper account simply states that the judge explained that a nolo plea could have the same effect as a guilty plea. The plea of nolo contendere has long been recognized in the federal courts, *United States* v. *Norris*, 281 U.S. 619 (1929); *Hudson* v. *United States*, 272 U.S. 451 (1926), and appellate courts have long held that a plea of nolo contendere has the same effect as a plea of guilty with respect to

[3] See *United States* v. *Light*, 394 F.2d 908, 914-15 (C.A. 2, 1968), and cases cited therein.

the case in which it is entered. *Tseung Chu* v. *Cornell*, 247 F.2d 929 (C.A. 9, 1957), *cert. denied*, 355 U.S. 892; *Bell* v. *C.I.R.*, 320 F.2d 953 (C.A. 8, 1963); *United States* v. *Consentino*, 191 F.2d 574 (C.A. 7, 1951). There is nothing in the record which even remotely suggests that any juror read the article cited by counsel. Moreover, assuming *arguendo* that a juror had read the article, John Wagner has failed to demonstrate that he was prejudiced.

## POINT TEN

### The Remaining Allegations of Error Are Unfounded

The defendants also raise as error the following additional points: (A) That under Count I of the indictment the government attempted to prove many separate conspiracies, rather than the single conspiracy alleged (P.U. Br. Pt. G); (B) That the prosecuting attorney in his closing argument alluded to the outstanding perjury indictment against John Wagner (J.W. Br. Pt. I); and (C) That the court erred in excluding testimony of Robert Wagner bearing upon his "state of mind" (R.W. Br. Pt. D). These additional allegations of error are without merit.

### A. *A Single Conspiracy Was Alleged and Proven in Count I*

Peter Unger's claim that each overt act or each property transaction covered in Count I constituted, at best, a separate conspiracy is unfounded. The fact that multiple substantive crimes were undertaken and committed by the defendants and that different defendants played varying roles and performed diverse functions in the scheme did not make the single, over-all conspiracy to defraud property holders a multiple conspiracy since there was a common purpose underlying the separate exchange transactions, the identical objective was being pursued in each instance, and there was concerted action by the defendants to achieve such purpose and objective, *i.e.*, obtaining real and personal property in exchange for worthless

paper. *See, e.g.*, *Blumenthal* v. *United States*, 332 U.S. 539 (1947); *Hayes* v. *United States*, 329 F.2d 209 (C.A. 8, 1964); *Isaacs* v. *United States*, 301 F.2d 706 (C.A. 8, 1962), *cert. denied*, 371 U.S. 818. The mere fact that the defendants utilized "a multiplicity of ways and means of action and procedure . . . such that it would involve the commission of more than one criminal offense," did not transform their scheme into multiple conspiracies. *Weiss* v. *United States*, 122 F.2d 675, 680-81, (C.A. 5, 1941), *cert. denied*, 314 U.S. 687. *See also United States* v. *MacAlpine*, 129 F.2d 737, 739 (C.A. 7, 1942).

### B. *There Was no Reference to the Perjury Indictment in the Summation by the Government*

Although John Wagner "assured his counsel" that the Assistant United States Attorney alluded in his summation to the outstanding perjury indictment against him, the record accurately reflects that no such reference was made. (Tr. 2-74, August 3, 1967) This false assurance to his counsel on this appeal further demonstrates John Wagner's duplicity.

### C. *There Was no Error in the Trial Court's Refusal to Allow Robert Wagner to Testify to Self-Serving, Hearsay Declarations*

Robert Wagner argues that he should have been allowed to testify to a conversation that he had with a Mr. Peter McAtee at the Albuquerque Hotel, in August 1966, in order to establish his "state of mind" so that the jury could find that he was not knowingly engaged in the conspiracy charged. If any such conversation in fact occurred, and if it were relevant to Robert Wagner's defense of good faith, then Mr. McAtee should have been called as a witness to testify to it.

The case relied upon by Robert Wagner, *United States* v. *Anost*, 356 F.2d 413 (C.A. 7, 1966), is inapposite. In *Anost*, the defendants were convicted of knowingly possessing and transporting in interstate commerce certain

stolen goods. The crucial issue of the case was whether the defendants knew that the goods they received from other parties were stolen. The trial court excluded from evidence testimony by the defendants that a third party hired them to transport the goods, but did not tell them anything that would have put them on notice that the goods were stolen. The appellate court found that the trial court's rejection of the offered evidence deprived the defendants of the opportunity to establish a good faith defense, and consequently reversed the convictions.

In the instant case, Robert Wagner was *not* denied the opportunity to prove an alleged good faith defense to the conspiracy charge for which he was convicted. He testified himself, and called several witnesses to testify on his behalf. The issue of his good faith was squarely presented to the jury not only by Robert Wagner's testimony and that of his defense witnesses, but also by the trial court in its charge to the jury (*see, e.g.*, Tr. 2760-61). The evidence of Robert Wagner's conspiratorial activities, *aliunde* any of his activities at the Albuquerque Hotel, was substantial. Nothing in the record even remotely suggests that Mr. McAtee was privy to any aspects of the conspiracy alleged in Count I; consequently, nothing Robert Wagner discussed with Mr. McAtee could possibly be relevant to his good faith defense that he was not participating in a scheme to defraud with the other defendants. Furthermore, even if the trial court's refusal to allow Robert Wagner to testify to irrelevant or cumulative hearsay in an attempt to show the jury his "state of mind" constituted error, at best it would be harmless in light of the independant overwhelming evidence of guilt in the record.

## CONCLUSION

The government respectfully requests that this Court affirm the verdicts of guilty returned by the jury against defendants John Wagner, Peter Unger and Robert Wagner.

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## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Brief for Appellee was furnished by mail to Edmund B. Schultz, Esq., P.O. Box 445, 1630 Newell Avenue, Walnut Creek, California 94597, and Willard F. Jones, Esq., One Grand Rio Circle, Sacramento, California 95826, attorneys for John C. Wagner; to Joseph E. O'Connor, Esq., P.O. Box 6252, San Diego, California 92106, attorney for Peter C. Unger; to Barry J. Freeman, Esq., 100 West Monroe Street, Chicago, Illinois 60603, attorney for Robert L. Wagner, this ............ day of January, 1969.

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*Of Counsel for Appellee*

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UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT



No. 22680 -A-

| | |
|---|---|
| JOHN C. WAGNER,<br>ROBERT L. WAGNER,<br>PETER C. UNGER,<br><br>Appellants<br><br>v.<br><br>UNITED STATES OF AMERICA<br><br>Appellee | Appeal from the United States District Court of Oregon, Portland, Oregon<br><br>Honorable<br>ROBERT C. BELLONI<br>Judge Presiding |

# REPLY BRIEF FOR APPELLANT PETER C. UNGER

JOSEPH E. O'CONNOR
Attorney for Appellant

TOPICAL INDEX

TABLE OF AUTHORITIES CITED

## II. REPLY TO COUNTER STATEMENT OF THE CASE

Appellee's statement of the case contains the following misstatements, among others:

1. The Paonessa Tract: Appellees state that such property was acquired by Unger and John Wagner (7). The property was purchased by Wagner only. There is no evidence whatsoever that Unger ever owned any interest in the land, until he purchased from Wagner various parcels, as did several other persons who were not even defendants in the case.

2. Rupard Tract: This land was acquired by Wagner, not Unger and Wagner. Unger acted as Wagner's agent in the purchase, and over a year later Unger purchased portions of this land. That John Wagner carried his interests at an inflated value on his balance sheet has nothing whatsoever to do with Unger.

3. Evans Tract: Unger again acted as agent for John Wagner in the purchase of this property, which Wagner then split up into parcels and sold such to Unger, D. D. Vance, and Peter Crystall. Wagner later represented that payments were being made on the trust deeds created by the aforementioned persons, but such persons had no knowledge or control of Wagner and his representations concerning the trust deeds. Further, D. D. Vance and Peter Crystall were not indicted, just Unger.

4. Lishner Properties: In November 1964, John Wagner purchased a house. In February 1965, Peter Unger purchased three properties from Lishner, in a completely separate transaction. The fact that all of the properties were later foreclosed upon does not

make a conspiracy out of the acts of Unger and those of John Wagner.

5. At page 12 of Appellees Brief, it is stated that Wagner and Unger, with their inventory of worthless promissory notes and trust deeds and their false financial statements, acted together. Peter Unger was the obligor on some trust deeds held by Wagner, but not the owner, so they were hardly part of any Unger "inventory". Further, if John Wagner repeatedly used false financial statements in his dealings, there is no evidence whatsoever of any use of such by Unger.

6. Harris Properties: No trust deeds executed by Unger were involved.

7. Shorts & Smith Properties: Again Appellee's allege property was purchased from a portfolio of worthless Elsinore trust deeds owned by John Wagner and Peter Unger. There is no evidence whatsoever that Unger owned any of the Elsinore trust deeds.

8. Ruby View Trailer Estates: The government states that this property was acquired by Unger and Wagner. The facts show that Unger acted only as an agent for Wagner in the purchase and that later, as part of his commission, received trust deeds and notes on certain lots. The property was owned by Wagner who sold it to Golden Rule and then listed it at high values on Golden Rule's financial statements. There was no evidence whatsoever that Unger ever had anything to do with Golden Rule. What happened to the property after Wagner purchased it was not his concern.

9. Rupard Tract Revisited: Again the government classified the property as "acquired by John Wagner. What John Wagner

did with Stewart and Golden Rule as to the trust deeds created on the property in no way concerned Unger, nor did he have anything to do with same.

10. Lulling Activities: The Appellee's statement that Unger was unaware that Brown held his trust deeds is precisely correct and this fact belies the entire theory of the government's case, to wit, that Unger acted in concert with the other defendants in negotiating, in a fraudulent manner, trust deeds that he was an obligor on.

## III. REPLY TO POINT ONE - THE EVIDENCE DID NOT SUPPORT THE JURY VERDICT

Peter Unger did nothing that was necessary for the accomplishment of the purportedly illegal schemes of John Wagner and his confederates, nor was it clearly demonstrated by the evidence that he had knowledge of the alleged illegal activities. Purchase of property from John Wagner by Peter Unger and the executing of purchase money mortgages against the parcels purchased were completely legal transactions and were not void. Whether or not there was a cash down payment does not control the genuineness of these transactions, since John Wagner could have traded the lots directly instead of trading the trust deeds or he could have signed anyone's name to trust deeds. Peter Unger's signing the trust deeds was an irrelevant and unnecessary act in the consummation of any fraud against property owners who traded for these trust deeds. Peter Unger was in no way connected with the three corporations, other than on several occasions acting as a broker for GRR. There is no evidence he had knowledge of what was told to any of the purported victims with respect to the value of the trust deeds. The statement that GRR had multi-million dollar assets alluded to by the Appellee was a true statement, as the evidence at the trial amply indicates.

Peter Unger did not profit from the purported illegal transactions. The Lishner house had nothing to do with the charges. The Harris trust deed sold by Unger had nothing to do with a purported fraud of Harris. This trust deed was created by Wagner and was an arms length transaction between Unger and Wagner and took place after the

occurence of any purported wrongdoing.

The Aloha property had been purchased by Unger at the time he collected any rents. The record is clear that Unger had no direct dealings with the Principals of the Aloha property nor was his acquisition of same anything other than an arms length transaction. It is also clear that he was taken advantage of and mislead in this transaction by John Wagner.

The argument that Unger misappropriated funds from Aloha Estates is totally without foundation, since Unger was the owner and President of the corporation during the time he handled any money.

## IV. REPLY TO POINT THREE - JOINDER OF OFFENCES AND OF DEFENDANTS WAS IMPROPER

Where multiple defendants are involved Rule 8 (b) requires that each count of the indictment arise out of the same series of acts or transactions which all of the defendants have participated. WILLIAMSON v. UNITED STATES, (CA 9th 1962) 310 F2d 192 Joinder of defendants in violation of Rule 8 (b) is reversible error regardless of any prejudice shown to the defendant. UNITED STATES v. SPECTOR (CA 7th, 1963) 326 F2d 345 It was the Appellee's theory that two separate and distinct illegal agreements had been reached and overt acts were taken in respect to each agreement so that two conspiracies existed. The trial court refused to eliminate one conspiracy charged and instructed the jury that to convict under Count 14 it must "find a conspiracy complete and separate from that charged in the first count." The jury so found. It is entirely inconsistent to hold that the two conspiracies were complete and separate and to also hold that the conspiracies constituted a "series of acts or transactions constituting an offense or offenses."

The substantive offenses charged against the other defendants in counts XV, XVI, and XVII are even less related to Count I and no participation by Unger in these transactions is anywhere alleged in the indictment nor was there any proof that he in any way participated in these transactions, the joinder was error per se.

In the case of HAGGARD v. UNITED STATES (CA 8th, 1966) 369 F2d 968 cited by the Appellant there was only one conspiracy charged and all 13 substantive counts were embraced within the one conspriacy, each substantive offense apparently being cited as an overt act

of the alleged conspiracy. Also the appellant in that case was named in some of the substantive counts. All counts involved a similar scheme to defraud the same bank, there were identical transactions in each instance and the defendants were alleged to have aided and abetted the principal wrongdoer. This case is clearly distinguishable from the instant case, in that there is an apparent series of acts that are identical against the same victim by the sam e principal actor who was aided and abetted by the other defendants. The fact that the single conspiracy charge embraced all of the substantive charges alleged in the other counts of the indictment would make all counts part of the same transaction. The situation in the instant case is not at all similar since the conspiracy charge that Unger was indicted under did not embrace all of the counts of the indictment nor were all of the counts part of the same series or transaction.

Joinder was also improper under Rule 14 of the Federal Rules of Criminal Procedure. The case of DREW v. UNITED STATES, 331 F2d 85 (CA DC, 1964) is in point since distinct and separate offenses were joined, in particular, Counts XIV, XV, XVI and XVII. Further, distinct conspiracies were included in Count I which the evidence showed were clearly not a part of any common scheme that Unger entered into.

V REPLY TO POINT SIX - APPELLANT PETER UNGER WAS DENIED DUE PROCESS OF LAW AND EFFECTIVE ASSISTANCE OF COUNSEL

Objection is made to the introduction of the affidavit of Attorney TOM P. PRICE in that it was not part of the trial proceedings nor was the evidence contained therein considered in the trial court. If this affidavit is to be used, it points out that he prosecuted over 130 major felonies during his tenure in the District Attorney's office. However, there is no indication that he had any experience in either prosecuting or defending conspiracy cases, or for that matter, any complex business fraud case. Acting as defense counsel fo r this complex case, with its many counts, defendants and issues as well as its extremely complex business transactions is not comparable to the prosecution of the usual felony case. At any rate, the essential question is whether or not Peter Unger got effective representation at his trial, not whether or not his attorney was capable of giving adequate representation had he prepared for the case. It is well established that the right to counsel means the right to effective counsel. MAC KENNA v. ELLIS, C. A. Tex. 280 F. 2d 592; BRUBAKER v. DICKSON, 310 F. 2d 30, 37 (C. A. 9, 1962)

Appellee's brief alleges error in Appellant citing page 2664 to indicate Attorney Price's remarks on making a motion for a directed verdict. The error is regretted, for the remarks and motion were made on pages 2271-72 and page 2664 was merely a renewal of said motion.

Appellant contends that the representation was a farce throughout the trial and that the attorney highlighted the farce in his direct examination of his client, the Appellant, Peter C. Unger. Peter

Unger took the stand to testify in his own behalf. Most significant, is that he was the only witness to testify in his behalf so such was crucial to his defense. At the conclusion of the direct examination, Attorney Price asked his client if he hadn't been charged with the crime in Count 14, of Conspiracy to Defraud the United States Government (R.T. 2362). The prosecuting attorney had to interrupt Price's examination of his own client to tell Price that his client had not been charged with that Count and that crime, but with another Count, another crime (R.T. 2362) Attorney Price admitted at page 2363 of the Transcript that he was confusing Count 1 with Count 14.

Here a person's own attorney, after ten (10) days of trial, is still so confused that he doesn't know which crime is charged against his client. This error, coming right at the end of the direct examination, at the climax of Unger's testimony, underscores the serious damage and confusion that must have been left in the minds of the jurors. It was embarrassing and highly prejudicial to Unger who, as his own witness was testifying in an attempt to aid his cause, not defeat it. Further, Attorney Price asked not a single question on re-direct nor made any effort to reduce the prejudicial effect his error, ineptness and confusion must have created. The attorney's action made a farce of the direct examination, and of the entire trial, and was not the reasonably effective counsel that a defendant is entitled to under Due Process of Law.

VI. REPLY TO POINT SEVEN - THERE WAS ERROR IN THE PROCEDURES FOLLOWED BY THE COURT IN DEALING WITH THE PUBLICITY ASPECTS OF THE TRIAL

Appellee apparently bases its argument on the following points:

1. Whatever newspaper publicity that did arise during the trial consisted of only three routine news articles appearing on inside pages and containing factual accounts of what had transpired at trial (Appellees brief p. 93).

2. That the trial court frequently and forcefully admonished the jury to void exposure to any newspaper, radio or television publicity about the case (Appellee's brief p. 92 and 99).

3. That the trial judge's examination of the jurors after prejudicial publicity had been published in the newspapers was adequate. (Appellee's Brief p. 94)

Concerning point three, the trial court had a duty to make an individual examination of each juror, either in open court or out of the presence of the other jurors, to determine whether or not they had been exposed to prejudicial publicity. The trial court did neither, and made but a weak inquiry of the jurors as a whole. CALO v. UNITED STATES, 338 F. 2d 793, 795 (1st Cir. 1964) held that once a newspaper article has been brought to the attention of the court, the government has the burden to establish that no juror had the matter brought to his attention, which was not done in this case.

Concerning the second point, Appellee apparently acknowledges by omission that the trial court did not give a single admonition at any of the lunch breaks to the jurors, and this was a three

week trial. Further, as the transcript indicates, what few admonitions given were short, perfunctory, kind of a last toss-out phrase at the end of the day and neither strongly nor forcefully given. The trial court did not discharge its duty to give frequent admonitions during the trial.

As to point 1., the brief of Appellee constantly refers to the minimal amount of publicity that surrounded the case, and the few inside newspaper articles that did occur. The appendix of Appellant John Wagner's Brief shows conclusively that this trial made the headlines the front pages of the Portland newspapers, not onee, but several times, and that volumnious articles were written concerning the trial. There was a newspaper reporter present in the courtroom each day of the trial. This was no "little" case, but one of the most sensational fraud cases ever to hit the Portland area, and the application of the prejudicial aspects of newspaper publicity reaching the jurors is as applicable here as in COPPEDGE, ACCARDO, ESTES, SHEPPARD AND SILVERTHORNE

## VII. REPLY TO POINT EIGHT - STATEMENTS OF APPELLANT PETER C. UNGER WERE IMPROPERLY ADMITTED.

Objection is made to the consideration by this court of F.B.I. memorandums that were not part of the testimony and were in no way introduced into evidence. If these memorandums are considered, it is noted that in the interviews on May 17, 1966 and June 1, 1966, Unger was not told that if he could not afford an attorney the court would appoint him one, and that his attorney could be present when he was being questioned, northat he could stop answering questions once he started to answer them. There was also no explicit warning that he could remain silent.

VIII. REPLY TO POINT TEN - MULTIPLE CONSPIRACIES WERE ALLEGED IN COUNT I.

The Appellee's position that there was a single over - all conspiracy to defraud property owners is a vast oversimplification of this case. Even if this were the original agreement reached between Unger and J. Wagner, it is incredible to hold that this same initial agreement applied to the other defendants who joined with J. Wagner at much later times or to hold that the use of unsecured GRR notes and the utilization of complex financial statements as well as loan brokers were not in fact new agreements entered into.

## IX. CONCLUSION

The conviction of Peter C. Unger should be reversed under each of the arguments presented in the brief and partially amplified in the reply Brief. Alternatively, a new trial should be ordered.

Respectfully submitted,

JOSEPH E. O'CONNOR
Attorney for Appellant,
Peter C. Unger

## CERTIFICATION

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19, and 39 of the United States Court of Appeals for the Ninth Circuit, and that in my opinion, the foregoing brief is in full compliance with those rules.

JOSEPH E. O'CONNOR
Attorney for Appellant-
Defendant, PETER C. UNGER

CERTIFICATE OF SERVICE

I hereby certify that three (3) true and correct copies of the foregoing Reply Brief for Appellant Peter C. Unger were furnished by ;mail to Sidney I. Lezak, United States Attorney, U. S. Court House, Portland, Oregon 97204, this 10th day of March, 1969.

JOSEPH E. O'CONNOR
Attorney for Appellant,
Peter C. Unger

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

No. 22680 - A

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|---|---|---|
| JOHN C. WAGNER,<br>ROBERT L. WAGNER,<br>PETER C. UNGER,<br><br>Appellants<br><br>vs<br><br>UNITED STATES OF AMERICA<br><br>Appellee | ) | Appeal from the United States District Court of Oregon, Portland, Oregon<br><br>Honorable ROBERT C. BELLONI Judge Presiding |

**BRIEF FOR APPELLANT PETER C. UNGER**

JOSEPH E. O'CONNOR
Attorney for Appellant

FILED

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WM. B. LUCK, CLERK

UNITED STATES COURT OF APPEALS

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BRIEF FOR APPELLANT PETER C. UNGER

JOSEPH E. O'CONNOR
Attorney for appellant

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## II. INDICTMENT

In a 17 Count indictment, 8 individuals and 3 corporations were charged with the substantive offenses of fraud in the sale of securities, mail fraud, false statements, interstate transportation of converted property and conspiracy to commit these offenses.

All defendants were charged with conspiracy to commit fraud in the sale of securities and mail fraud under Count I. John Wagner, Coleman Christensen, and Gordon Jongeward were charged with 5 counts of fraud in the sale of securities, Counts II through VI. The same three defendants were charged with 7 counts of mail fraud, Counts VII through XIII. J. Wagner, Christensen, Jongeward, R. Wagner, and Kosieres were charged with conspiracy to commit fraud against the United States, making false statements to agencies of the United States and interstate transportation of stolen funds under Count XIV. Christensen and J. Wagner were charged with making false statements in a matter within the jurisdiction of the Federal Housing Administration under Count XV and two counts of interstate transportation of stolen property under Counts XVI and XVII.

Counts IV, VII and XII were dismissed by the government.

## III. PRELIMINARY STATEMENT

In a 76 page indictment, including 17 separate counts, the defendant, Peter Unger, was charged with only the first count, conspiracy, under subchapter 18 U. S. C. 371 to violate Section 77 Q (a) Title 15, U. S. C. in the offer and sale of securities and also violation of Section 1341, Title 18 U. S. C., the mail fraud statute.

The defendant, Peter C. Unger was found by the trial court to be an indigent and an attorney was appointed to defend him. Prior to the commencement of the trial, motions were made to sever his trial from the other defendants, to sever the counts in the indictment and to transfer the case to the District Court of California, Southern District. The defendant, Peter Unger resided in San Diego, California with his family and had never been in Oregon prior to the trial.

The defendants agreed at the pretrial conferences that a motion or objection by one defendant would be considered a motion or objection by all of the defendants, unless otherwise specified.

The government called 109 witnesses, Defendant Christensen called 1 witness, Defendant Robert Wagner called 4 witnesses and also testified himself, and defendant Peter Unger called no witnesses but testified himself. All the witnesses called by the defendants had been subpoenaed by the government. The Court refused to grant the defendant's motions to pay the costs of subpoenaing various witnesses and to allow travel expenses to interview these witnesses.

Prior to the trial the charges against William A. Shubin were dismissed and Alvin R. Stewart entered a plea of Nolo Contendere to Count I.

On the 7th day of trial, the court accepted the plea of Nolo Contendere to all counts of the indictment with the exception of Count 12 (dismissed) in behalf of defendant Coleman Christensen. On the 9th day of trial, Gordon Jongeward entered a plea of Nolo Contendere to Counts 1, 11, 13, and 14. On the 11th day of trial the charges against Andrew Kosieres were dismissed. On the 13th day of trial, the government dismissed all charges against the three corporations, namely: Golden Rule Realty and Development, Inc., GRR Development, Inc., and Pioneer Mortgage Bankers. When the case was submitted to the jury, only the defendants J. Wagner, R. Wagner, and P. Unger remained in the case.

IV. <u>STATEMENT OF THE CASE</u>

Trial of this matter commenced on July 18, 1967, and was concluded on August 4, 1967. The government called 109 witnesses. Defendant, Christensen, called one witness before he plead nolo Contendere. The defendant, Robert Wagner called 4 witnesses and also testified himself. The defendant, Peter Unger, called no witnesses but testified himself. All the witnesses called by the defendants had been under subpoena by the government. The defendants, requested that witnesses be subpoenaed and also for travel funds to interview witnesses (Clerk's transcript 134 et. seq.) The court denied the motions. At the pretrial proceedings apparently the parties agreed that a motion by one was a motion for all, unless specified to the contrary. (R.T. p. 15, 1596)

Defendant Peter Unger is a real estate broker, duly licensed, as well as a real estate investor and dealer, in the State of California. He met John Wagner in 1962 and acted as a broker for Mr. Wagner occasionally and also bought and sold properties between themselves, for a total of between 30 and 50 transactions, primarily in the Elsinore, California area.

In the first transaction in the Elsinore are, he acted as a broker for Mr. Gregory in the sale of 89 acres to Mr. Wagner for around $49,000 to $42,500. The terms of sale were $3,500 cash down. All of the property was paid off except $1,900. Another purchaser paid $3,500 per acre from Mr. Wagner for about one-half the acreage. The property was approximately in the same area as the land agency tract.

Prior to the sale by Mr. Gregory to Mr. Wagner he had been attempting to buy the property for his own account.

Many properties were purchased by J. Wagner while he was in Elsinore, California, and several of these properties were sold to various people in parcels and as individual lots. Unger purchased a number of these lots from J. Wagner, receiving a grant deed and as part of the purchase price giving a note secured by a deed of trust on the lot purchased back to J. Wagner. The first property where this took place and which is purported to be a part of a scheme to defraud is property which was owned by Pearl Rupard.

RUPARD PROPERTY

Unger was working as a broker in Elsinore. He learned of property offered for sale by Pearl Rupard through another realtor. He contacted John Wagner and an offer was made. He represented J. Wagner and Redmond Realty Company represented Pearl Rupard. The property was purchased by J. Wagner on November 6, 1963, and is sometimes referred to as the Land Agency Tract. It is located in Elsinore. Over one year subsequent to the purchase, on November 30, 1964, J. Wagner sold a portion of this property to Unger. He took back as the consideration,notes secured by trust deeds on the individual lots sold in the amount of $1,250. These lots were legal lots and were part of an earlier subdivision. There was an existing trust deed on this property which was a blanket lien on the individual lots which were deeded to Unger. Unger testified that J. Wagner stated that he would clear the existing lien on the property so that Unger would own the lots

subject only to the trust deeds in the amount of $1,250 each. Apparently this was never done, and Unger made no attempt to pay on the notes secured by the trust deeds nor did he attempt to sell the lots he had acquired from J. Wagner. There was no personal liability that Unger had since the notes were part of the purchase price and the sole security was the property.

In early 1965, J. Wagner left the Elsinore area and went to Arroyo Grande, California, where he became associated with C. Christensen and Jongeward, who owned Golden Rule Realty Company. These three pooled their assets, with J. Wagner putting the Unger trust deeds, as well as many other properties, into the venture, and the three of them operated GRR as a partnership. Arroyo Grande is approximately 300 miles from Elsinore. Subsequently, in September or October of 1966, almost three years after Unger executed the notes, the corporation transferred these notes to shareholders of Aloha Estates, as part of a modification agreement between the parties, after GRR had purchased property from Aloha Estates and it was discovered that Aloha Estates had misrepresented the encumbrances on the property it had transferred to GRR.

Unger was not an officer, director, employee, agent, or owner , nor did he have any other representative capacity with GRR. He never represented GRR in any transactions nor did he ever receive any money from this organization. He did purchase Aloha Estates from this organization.

While Unger was in Hawaii he was approached by a Mr. Brown who demanded payment on notes that Unger was obligated on. Unger testified that he was surprised and didn't know what Brown was talking about, but paid $20 so that he would not be talked about as one who didn't pay his debts. He then checked and for the first time learned that the notes that he had signed were traded by J. Wagner and GRR. He learned that the prior encumbrance had been foreclosed, told J. Wagner this and told anyone who asked him thereafter, the same thing, stating that the notes were entirely worthless. Unger in no way represented to anyone that he would pay the notes prior to their being traded by J. Wagner and GRR.

PAONESSA PROPERTY

J. Wagner bought property in the Elsinore area from Peonessa in July of 1963. The property consisted of a total of 48 lots. J. Wagner apparently sold some of these lots to Garth Slate and to Peter Crystall, and approximately one and one-half years after he bought the property, sold some lots to Unger, on January 15, 1965. These lots were sold and the consideration paid by Unger was notes in the amount of $7,500 for each lot and secured by trust deeds on these individual lots.

On August 7, 1965, GRR traded one trust deed in the amount of $7,500 upon which Unger was obligated, together with three trust deeds where Crystall was the obligor, to Barkdoll. Apparently GRR had guaranteed payments on these notes to Barkdoll, as he collected from GRR for two months after no payments were forthcoming from

the obligors of the notes. Unger never communicated in any manner with Barkdoll.

MUTUAL BENEFIT TRACT

J. Wagner purchased property from Carl Evans on December 11, 1963. Wagner sold lots from this parcel to various people including Don Vance and Garth Slate and on January 15, 1965, over one year subsequent to his purchase of the property, sold some lots to Peter Unger, and took back notes secured by trust deeds on the lots in the amount of $1, 250 each.

On February 9, 1965, J. Wagner traded five of these Unger notes to Charles Shorts. Unger was never contacted in this regard and did not learn of same until the trial. Apparently Shorts made no investigation of the property and had a guaranty of payment.

In summary this is the sole connection Unger has had with any of the notes he signed after he gave same to Wagner. There is no testimony from anyone that these notes were not precisely what they purported to be, that is purchase money mortgages. The only thing that apparently was misrepresented by J. Wagner, and his associates, other that the value of these notes, was that the notes traded to the stockholders of Aloha Estates showed payments on same. However, this may not have been a misrepresentation as Wagner owed Unger some money and he may have credited the debt by payments on the note, as he did with Stewart. Of course, Unger had nothing to do with Wagner's records.

On only one occasion did Unger transfer any of the

securities that are the subject of Count I. Unger had obtained as a commission from Wagner two $3,000 notes secured by a trust deed on property in Elko, Nevada. These notes were executed by GRR and were payable to J. Wagner, who assigned same to Unger. Unger traded the note to Langston as partial consideration for the purchase of a house.

OTHER EVIDENCE

Many witnesses testified with respect to false financial statements being issued by J. Wagner and the three defendant corporations that J. Wagner, Christensen and Jongeward were associated with. Also, there was much testimony with respect to transactions other defendants entered into where the notes executed by Unger were not used and where he was not mentioned, i.e., in Amarillo and El Paso, Texas; Denver and Pueblo, Colorado; Las Vegas, Nevada; Albuquerque, New Mexico; South Gate, California; and McMinnuille, Portland, Kimberly, Lebannon, Monument and Fossil, Oregon.

Testimony was introduced concerning transactions entered into with J. Wagner, GRR and Christensen by Unger. These transactions did not involve the use of securities or the mails and their only apparent relevance is to show that the parties did have some business dealings with each other.

The dealings with J. Wagner after he left Elsinore were very few. J. Wagner sold Unger property acquired from Irma Harris on January 21, 1965, the Harbor Lights Apartments, as well as some

duplexes on the same date also acquired from Irma Harris.

Unger purchased a house from Mr. Langston through a broker, Mrs. Shackleford, and then sold the property to Christensen. He purchased apartments from GRR on May 28, 1966, that had been previously purchased from Chesney.

## V. QUESTIONS PRESENTED

A. THE TRIAL COURT ERRED IN NOT GRANTING A SEPARATE TRIAL FOR PETER C. UNGER BASED ON MISJOINDER UNDER RULE 8 (b) OF THE FEDERAL RULES OF CRIMINAL PROCEDURE.

B. THE TRIAL COURT ERRED IN NOT GRANTING THE DEFENDANT PETER C. UNGER'S MOTION FOR A CHANGE OF VENUE.

C. THE TRIAL COURT ERRED IN FAILING TO FREQUENTLY ADMONISH THE JURY NOT TO READ NEWSPAPER ARTICLES NOR LISTEN TO RADIO BROADCASTS AND TELECASTS, NOR TO DISCUSS THE CASE WITH ANYONE.

D. THE TRIAL COURT ERRED IN NOT POLLING THE JURY INDIVIDUALLY AS TO WHETHER OR NOT THEY HAD READ THE PUBLICITY CONCERNING THE TRIAL.

E. THE EVIDENCE WAS INSUFFICIENT AS A MATTER OF LAW TO SUSTAIN THE CONVICTION OF PETER C. UNGER.

F. IT IS A DENIAL OF DUE PROCESS OF LAW UNDER THE 6TH AMENDMENT OF THE U.S. CONSTITUTION TO FIND THE DEFENDANT GUILTY WHEN HE WAS NOT REPRESENTED BY REASONABLY EFFECTIVE COURT APPOINTED COUNSEL.

G. THERE WAS A MATERIAL VARIANCE BETWEEN THE PLEADING AND PROOF REQUIRING A REVERSAL AS TO DEFENDANT PETER C. UNGER IN THAT MULTIPLE CONSPIRACIES WERE ATTEMPTED TO BE PROVEN UNDER COUNT I.

H. THE TRIAL COURT ERRED IN NOT SEVERING THE TRIAL OF PETER C. UNGER FROM THE OTHER DEFENDANTS BASED ON PREJUDICIAL JOINDER UNDER RULE 14 OF THE FEDERAL RULES OF CRIMINAL PROCEDURE.

I. THE TRIAL COURT ERRED IN ADMITTING ADMISSIONS OF PETER C. UNGER TO AN INVESTIGATING OFFICER, WHERE HE HAD NOT BEEN ADEQUATELY ADVISED OF HIS CONSTITUTIONAL RIGHTS.

J. THE TOTALITY OF THE ERRORS, INCLUDING PUBLICITY, CHANGE OF VENUE, MISJOINDER, INADEQUACY OF COUNSEL, VARIANCE, IF INSUFFICIENT STANDING ALONE, WHEN CONSIDERED AS A WHOLE DENIED PETER C. UNGER DUE PROCESS OF LAW AND THE CONVICTION SHOULD BE REVERSED.

## VI. ARGUMENT

A. THE TRIAL COURT ERRED IN NOT GRANTING A SEPARATE TRIAL FOR PETER C. UNGER, BASED ON MISJOINDER UNDER RULE 8 (b) OF THE FEDERAL RULES OF CRIMINAL PROCEDURE.

The defendant was charged only in Count I, the gist of which is conspiracy to defraud by the use of securities in interstate commerce or by the use of the mails. Count XIV was a separate conspiracy charging other defendants with conspiring to defraud the United States, making flase statements to agencies of the United States and transporting in interstate commerce money obtained by fraud against the United States. It is clear that Count XIV is not alleged to arise out of the same transaction as Count I, since both counts are conspiracies and are allegedly different agreements and hence different transactions.

Count XV charged two defendants with making false statements in a matter within the jurisdiction of the Federal Housing Administration. These false statements are not part of the transaction Unger is alleged to have entered into. In none of the 64 overt acts listed in Count I, is it alleged that false statements were made to the Federal Housing Administration nor is making said false statements described at all in Count I. Similarly Count XVI charging two defendants with interstate transportation of converted property has no relationship with Count I, Such an act is not mentioned at all in Count I.

The charge in Count XVII of transporting converted property in interstate commerce that had been converted by fraud from

Carl Christensen, has no relationship with Count I nor is Unger in any way connected with same.

The money obtained from Carl Christensen was obtained by GRR from the sale of cattle. The government alleges it was a sale by fraud in that GRR represented that the cattle was not mortgaged when in fact it was mortgaged. GRR had obtained the cattle from Edna Dick of Kimberley, Oregon, in exchange for an unsecured promissory note of GRR on February 16, 1966. No mention whatsoever is made in Count I about this transaction or even about the means whereby GRR obtained the cattle. It therefore, clearly is not part of the same transaction as Count I.

Rule 8 (b) provides:

"Two or more defendants may be charged in the same indictment or information if they are alleged to have participated in the same act or transaction or in the same series of acts or transactions constituting an offense or offenses. Such defendants may be charged in one or more counts together or separately and all of the defendants need not be charged in each count."

Joinder of defendants in violation of Rule 8 (b) is reversible error regardless of any prejudice shown to the defendant. It is per se prejudicial (8 Moores Federal Practice 8-41: United States v Foster, (SDNY 1948) 80 F. Supp. 479;)

The joinder of defendants and offenses totally unconnected is prohibited by Rule 8 (b). This is not a matter of discretion. (United States v Spector, (C.A. 7th 1963) 326 F2d 345.

Each defendant must be alleged to have participated in the same transactions or series of transactions in which all of the other defendants have participated. Where multiple defendants are involved Rule 8 (b) requires that each count of the indictment arise out of the same series of acts or transactions which all of the defendants have participated. Williamson v United States, (CA 9th 1962) 310 F2d 192)

The case of Cupo v United States, (CA D. C. 1966) 359 F2d 990, is somewhat similar to the instant case. A conspiracy had been charged and defined as obtaining merchandise on credit from certain stores by false statements about employment, followed by the return c much of the merchandise for cash. The defendant, Carbonero and another were also charged in one of the substantive counts with obtain ing automobiles by false pretenses. The court determined it must reverse even if no special prejudice appeared and stated: "The offenses of getting automobiles by false pretenses were not charged in the indictment as overt acts in the conspiracy and were not introduced in evidence as parts of the conspiracy although the conspirators plann that merchandise obtained from stores would not be paid for and much of it would be returned for cash, there is no evidence of an intent not to pay for the automobiles. Moreover, ..."

The conviction of the defendant Peter C. Unger should be similarly reversed without any showing of prejudice because of the misjoinder pointed out above.

B. THE TRIAL COURT ERRED IN NOT GRANTING THE DEFENDANT PETER C. UNGER'S MOTION FOR A CHANGE OF VENUE.

Defendant's motion to move the trial of the case to the United States District Court of California, Southern District made a showing that Unger lived with his family in San Diego, California, that the trial would be lengthy, that the majority of witnesses were from California, and that he was not in financial condition to move to Oregon. (Tr. Vol. I, Clerk's record p. 116) The allegations in Count I of the indictment clearly showed that Unger's primary involvement was alleged to have occured in California when he signed trust deeds on properties located in Elsinore, California. His financial status had been verified by the court when he was declared to be an indigent. The complexity of the indictment and the number of defendants involved clearly indicated that a long and complex trial would be necessary.

In Travis v. United States, 364 U.S. 358, the court stated that factors such as defendant's place of residence, expense and trouble to be caused by trial in a far removed district and in transportation of witnesses, volume of records and difficulty of moving them, economic loss to be suffered by an extended period away from one's place of work, and advantage of being able to provide the jury with views of immovable exhibits, if permitted by the court, should all be considered in determining whether a case should be transferred to another district.

It appears that all of the factors mentioned by the court were strongly present in this case and it was an abuse of discretion for the court not to change the venue of this case.

C. THE TRIAL COURT ERRED IN FAILING TO FREQUENTLY ADMONISH THE JURY, NOT TO READ NEWSPAPER ARTICLES NOR LISTEN TO RADIO BROADCASTS AND TELECASTS, NOR TO DISCUSS THE CASE WITH ANYONE.

The first indication of knowledge by the Court of the high publicity value of the indictment and the extensive newspaper, radio broadcasts and telecast coverage already given the case prior to trial, and the probability of further coverage during trial, is indicated by the order given by the Court on March 30, 1967, over three months before the trial started, that the government suppress publicity in this case (Tr. Vol. I, Clerk's Record p. 116).

On the first day of trial, July 18, 1967, after the jury had been empaneled and sworn, the Court admonished the Jury as follows: "Fastidiously avoid any broadcasts and newspaper accounts of the trial. You need not feel that you will get valuable information from those sources that you won't get here, because you will recall again that this is sworn testimony, and information from the outside would only be detrimental to a fair evaluation of this case." (Tr. 4)

Again, after opening statements the Court stated, "Please do not discuss the case, and remember the other admonitions I have given you." (TR. 9)

The next morning of trial, before any witnesses took the stand, a defense attorney introduced two newspaper articles as Exhibits (Tr. 13), and moved for a mistrial and asked for an individual polling of the Jury (Tr. 4) in view of the fact that the newspaper articles in the

Oregon Journal and also in the Oregonian, newspapers with a broad general circulation in the State of Oregon as well as in Southwest Washington (Tr. 13) printed articles one of which contained the following language: "A companion 61-page indictment charged two defendants perjured themselves when giving sworn answers to questions of Ass't. U.S. Attorney, Roger G. Rose in the civil portion of the prosecution."

Trial attorney for Peter C. Unger joined in the motion (Tr. 18-19):

"The Court: "Ladies and Gentlemen of the Jury, the Portland Press, as was expected, did publish some matters concerning this case. There is nothing wrong with that in and of itself. However, the articles were not entirely accurate, and had you read them and believed them, it would be a matter unfairly prejudicial to some of the defendants in this case. Of course, I have asked you not to read them, but I do want to know whether any of you did? (No response.) All right, then I assume that none of you have read the articles or none of them have been discussed in detail by you or your husbands or other family members or any other person. If this isn't the case, please let me know. (No response.) "

The Court in so stating ruled that the articles were definitely prejudicial, if read and believed. The motion of the Court before trial for the government to suppress publicity in this case is further acknowledgment that the case and the defendants had high publicity value.

In United States v Acardo, 298 F2d 133, 136 (1962) the court

stated as follows: "The jury separated each night and was exposed to the prejudicial publicity. In view of that fact and of defendants publicity value, it was essential that the judge frequently, prior to separation, call the attention of the jurors specifically to the possibilitites of newspaper accounts carrying statements of facts about the case."

"What is said here applies with equal force to radio news broadcasts and telecasts."

And further in United States v Acardo supra, in the concurring opinion, at page 140: "...I believe that as a minimum the trial judge should have frequently repeated the admonition given on the first day of trial. Under somewhat similar circumstances, some trial judges have adopted the practice of giving such an admonition at the close of each days session of trial. This is a good practice.

The following is every admonition given by the court to the jurors at the conclusion of each day of trial, as to publicity, the reading of newspapers, the listening to radio broadcasts and telecasts and the jurors discussing the case with anyone:

1st day, Tuesday, July 18, 1967. "Please do not discuss the case and remember the other admonitions I have given you." (Tr. 9)

2nd day, Wednesday, July 19, 1967. "Please do not discuss the case or form an opinion."

"Many people believe that when a judge tells the jury not to read the newspapers, that the first thing they do is rush out and start reading them. I don't believe that is true. I don't believe that is true, because you didn't the last time and because you took the oath to

try this case fairly, and you are not going to rush out to read the newspapers."

"Now I am not critical of the newspapers. I have no reason to be critical. They write the truth as they see it. I met the charming young man who is the reporter, and he told me that he had been a reporter for three months and had never been in the courtroom. Therefore, there are going to be some inaccuracies, and if those inaccuracies are read by you people, they will not serve the cause of justice. Somebody will be treated unfairly. That is not sworn testimony, and it is fine for a purpose. But the purpose isn't evidence in this case. So make a studious effort, if you will, and I ask you again to avoid reading or listening to conversations or news broadcasts about this case." (Tr. 191)

3rd day, Thursday, July 20, 1967. "Please do not discuss the case or form an opinion." (Tr. 463)

4th day, Friday, July 21, 1967. "Continue your practice, if you will, Ladies and Gentlemen, of avoiding publicity on this case." (Tr. 726)

5th day, Monday, July 24, 1967. No admonition given. (Tr. 986)

6th day, Tuesday, July 25, 1967. No admonition given. (Tr. 1251)

7th day, Wednesday, July 26, 1967, No admonition given. (Tr. 1466)

8th day, Thursday, July 27, 1967. No admonition given.

(Tr. 1648)

9th day, Friday, July 28, 1967. No admonition given. (Tr. 1828)

10th day, Monday, July 31, 1967. "Please avoid newspaper accounts of the trial and avoid television and radio broadcasts. Please do not discuss the case nor form any opinion." (Tr. 2094)

11th day, Tuesday, August 1, 1967. No admonition given. (Tr. 2399)

12th day, Wednesday, August 2, 1967. No admonition given. (Tr. 2625)

13th day, Thursday, August 3, 1967. "The admonitions that I have given you many times, those admonitions are all the more important at this moment, because you have heard all the evidence and all the arguments that you are to hear. But you have not yet heard the Court's instructions, so you don't know at this point the rules or standards to apply, nor even what your ultimate task will be. So it is not yet the time to form any opinions in the case."

"Please do not discuss the case, either among yourselves or with anyone else. Please do not read the public press. It is no reflection on the press to tell you that it would be prejudicial to one or more or perhaps all parties of this case for you to read it. It is not written for the same reason that the testimony is given here. It is not required that they write with the technical accuracies necessary in a trial of the case. Therefore, just simply avoid newspaper accounts or broadcasts accounts of the trial until it is over. Then, perhaps maybe your husbands or wives will save them for you, and you can

read them." (Tr. 2680)

The court, before trial, recognized the high publicity value of the case and ordered the government to suppress publicity. The court on the second day of the trial ruled that newspaper articles then published would, if read and believed by the jurors, be not probably prejudicial, but actually prejudicial to the defendant. The court was fully aware of the extensive and consistent newspaper coverage of the trial and the many articles written, and such is evidenced by the statement by the court at Tr. p. 2680: "...just simply avoid newspaper accounts or broadcast accounts of the trial until it is all over. Then perhaps your husbands or wives will save them for you, and you can read them then."

The court not only knew of the continued press coverage, but also of the reporters presence in the courtroom. This is shown by the court's statements regarding the introduction into evidence of certain exhibits. (Tr. 2373) The Court: "In the first place, I notice there are some Oregonian newspaper articles in there that I don't see are admissable. If the Oregonian reporter claims to have some specia knowledge about the facts of this case, then subpoena him. There is one in the room."

Aside from the admonitions given on the first, second and thirteenth days of trial, the court on four days gave but a weak perfunctory admonition and on seven days gave none at all.

Nor were there any admonitions given at any of the noon recesses when the jurors separated for a lunch break, (Tr. 74, 325,

584, 1112, 1328, 1771, 1952, 2288, 2500), nor did the court make any' reference to the matter in his final instructions to the jury, or at any other time during the trial.

During the second week of trial, not a single admonition concerning publicity was given to the jurors, not even a cursory or perfunctory admonition, in fact not one word was said by the Court to the jurors concerning this matter, from Friday, July 21, 1967, until Monday, July 31, 1967, a period of ten calendar days.

The importance of frequent admonitions was emphasized in Coppedge v United States, 272 F2d 504, 506, where the court stated: "At the beginning of the trial, when the jury was first sworn, the court admonished the members that they must not discuss the case with anyone and that they would please keep an open mind until the trial was finished. The court did not mention newspapers or newspaper articles. The trial judge did not further admonish the jury at the end of the first day, or of the second day, or of the third day." And further, "The court made no reference to the matter in his final instructions to the jury."

That court further continued: "In Carter v United States, (102 U.S. App D.C. 277, 231, 252, F2d 608, 612 (1957).) We quoted from cur opinion in Brown v United States, (99 F2d 131 (1938) ): "... and in all criminal cases whenever jurors are permitted to separate the court should invariably admonish them not to communicate with any person or allow any person to communicate with them on any subjec connected with the trial, and not to read published accounts of the cour

of the trial."

"We added, in Carter: "The language we then used, 'the court should invariably admonish them', imposed upon the trial courts a requirement."

In Silverthorne v United States of America, 9th Cir. No. 21, 221, decided August 27, 1968, the Court stated: "Despite the inability of the trial judge to prevent newspapers or other news media from being brought to the attention on a non-sequestered jury..., the trial court cannot assume that all is well, or that there is nothing he can do."

And further, "Jurors are not presumed to separate the truth from the falsity in newspaper articles concerning the trial in which they sit as judges of fact. The jury's impartiality must be kept free from 'any outside influence, whether of private talk or public print."' Patterson v Colorado, 205 U.S. 454, 462. It is therefore the affirmative duty of the trial court to take positive action to ascertain the existence of improper influences on the jurors deliberative qualifications and to take whatever steps are necessary to diminish or eradicate such improprieties."

The trial court here failed in this requirement to make frequent admonitions to the jurors though the court was fully aware of the publicity attendant to the defendants and the trial. Further, the few admonitions given were not in the form of an order, nor were they forceful. The admonitions were a request to avoid publicity, implying that is some effort was made to avoid reading or hearing the publicity,

this was sufficient, even if despite these efforts some publicity reached the jurors.

D. THE TRIAL COURT ERRED IN NOT POLLING THE JURY INDIVIDUALLY AS TO WHETHER OR NOT THEY HAD READ THE PUBLICITY CONCERNING THE TRIAL.

On the first day of trial, after the jury had been empaneled and sworn, the Court admonished the jury as follows: "Fastidiously avoid any broadcasts and newspaper accounts of the trial. You need not feel that you will get valuable information from those sources that you won't get here, because you will recall again that this is sworn testimony, and information from the outside would only be detrimental to a fair evaluation of this case." (Tr. 4)

Again, after opening statements the court stated, "Please do not discuss the case, and remember the other admonitions I have given you." (Tr. 9)

The following morning of trial, before any witnesses took the stand, one defense attorney introduced two newspaper articles and asked for an individual polling of the jury, (Tr. 14) in view of the fact that the newspaper articles appearing that morning in the "Oregonian" contained the following language, "A companion 61-page indictment charged two defendants perjured themselves when giving sworn answers to questions of Ass't. U.S. Attorney, Roger G. Rose in the civil portion of the prosecution."

The trial attorney for Peter C. Unger joined in the motion for a mistrial and the polling of the jury. In response to this motion the court addressed the jurors as follows (Tr. 18-19):

"The Court: Ladies and Gentlemen of the jury, the Portland Press, as was expected, did publish some matters concernin this case. There is nothing wrong with that in and of itself. However, the articles were not entirely accurate, and had you read them and believed them, it would be a matter unfairly prejudicial to some of the defendants in this case. Of course, I have asked you not to read them, but I do want to know whether any of you did? (no response) All right. Then I assume that none of you have read the articles or none of them have been discussed in detail by you or by your husbands or other family members or any other person. If this isn't the case, please let me know." (no response)

The fact of the perjury indictment, if known to the jurors without knowing that Peter C. Unger was not one of those named defendants indicated in the article, would have been particularly prejudicial to him. Peter C. Unger took the stand and testified on his own behalf and the newspaper article in question mentioning a perjury indictment could have greatly damaged the effectiveness of his testimony and prejudiced his entire case.

By preceeding the questions to the jury about reading the articles with, "of course I have asked you not to read them," the court effectively inhibited an honest and forthright response of any guilty juror, and thereby has committed error. In Coppedge v United States, D.C. Cir., 272 F2d 504, 508, (1959) the court stated: "It is too much to expect of human nature that a juror would volunteer, in open court, before his fellow jurors, that he would be influenced in

his verdict by a newspaper story of the trial." In the 1967 case of Mares v United States, 383 F2d 805, 809 (1967) the court quoted the Coppedge case and further stated: "The article was presented as a grounds for mistrial. The nature of the article was such that the trial court should have immediately ascertained whether any jurors had been exposed to it. This could have been done without any referenc to the nature of the article. It should have been done by a careful examination of each juror out of the presence of the remaining jurors."

In United States vs Accardo, 298 F2d 133 (CA 7, (1962) ) the court states on page 136: "The judge's general admonitions at the beginning of the jury selection, his assumption of their effectiveness, and his instructions were inadequate protection. His general inquiry during the Voir Dire examination did not supply the deficiency. ("I ask each and every one of you, have you followed my direction in that regard?") There is no certainty that all jurors would volunteer information about violating the admonitions or admit that they were influenced by the publicity."

In the case of Don C. Silverthorne v United States of America, (9th Cir., Case no. 21, 221, decided August 27, 1968) the court quoted as follows:

"The theory of our system is that the conclusions to be reached in a case will be induced only by evidence and argument in open court, and not by any out side influence, whether of private talk or of public print." Patterson v Colorado, 205 U.S. 454, 462, 27 S. Ct. 556 (1927)

"Our system of law has always endeavored to prevent even the probability of unfairness." In re Murchison, 399 U.S. 133, 136, 75 S. Ct. 623 (1955).

"The trial judge has a large discretion in ruling on the issue of prejudice resulting from the reading by jurors of news articles concerning the trial. Holt v United States,' 218 U.S. 245, 251, 31 S.Ct. 2 (1910)

But discretion is not a substitute for duty.

"Given the pervasiveness of modern communications and the difficulty of effacing prejudicial publicity from the minds of the jurors, the trial courts must take strong measures to insure that the balance is never weighed against the accused." Sheppard v Maxwell, 384 U.S. 333, 362, 86 S. Ct. 1507 (1966)

"No doubt each juror was sincere when he said he would be fair and impartial... but the psychological impact requiring such a declaration before one's fellows is often its father." Irvin v Doud, 366 U.S. 717, 728, 81 S. Ct. 1662 (1961)

"... that the fact that they did not respond to the court's general inquiries does not establish that the publicity could not have prejudiced any members of the jury." Henslee v United States, 246 F2d 190 (5th Cir. 1957)

In view of the Court's statement that newspaper articles were expected, the court's determination that had the juror's read this article it would have been unfairly prejudicial, and the court's remarks inhibiting a forthright answer from a juror, individual

interviews should have been held to overcome the reluctance to speak out. As stated in Coppedge v United States, 272 F2d 504, 508 (D. C. Cir. 1959) "...

[T]he Court should... (make) a careful examination of each of the jurors involved, out of the presence of the remaining jurors, as to the possible effect of the articles."

The article here in question is one from which prejudice might arise. Once this article was brought to the attention of the court, the government had the bruden to establish that no juror had the matter brought to his attention. Calo v United States,338 F2d 793, 795 (lst Cir. 1964). No such showing was made by the government in this case.

E. THE EVIDENCE WAS INSUFFICIENT AS A MATTER OF LAW TO SUSTAIN THE CONVICTION OF PETER C. UNGER.

Count I charges Unger and the other defendants with conspiracy to violate (a) the anti-fraud section of the securities act, and (b) the mail fraud statute. The gist of the charge in Count I is that Unger agreed with the other defendants to defraud private people of property through the sale of fraudulent securities, accomplished through the use of means of interstate commerce or the mails. The proof must show that Unger knowingly and will fully participa ted in some phase of the overall scheme to defraud.

The evidence of knowledge must be clear, not equivocal. Direct Sales Company v United States, 319 U.S. 703.

He must be shown to have at least the degree of intent necessary for the substantive offense itself. Ingram v United States, (1959) 360 U.S. 672, 678, 79 S.Ct. 1314, 3 L.Ed2d 1503; Mazurosky v United States, (9th Cir. 1939) 100 F2d 958; Phillips v United States, (9th Cir. 1965) 356 F2d 297.

"...Constructive notice or knowledge of a circumstance, based upon actual knowledge of a co-conspirator, agent or employee, has no tendency, circumstantially or otherwise, to prove criminal intent." Phillips v United States, supra at 303.

Mere knowledge or approval of or acquiescence in object and purpose of conspiracy without agreement to cooperate to accomplish such object or purpose is not sufficient to constitute one a party to conspiracy. Court reversed conspiracy conviction to violate Internal

Revenue law relating to intoxicating liquors where she lived in the house on the premises where the still was located and hurriedly withdrew when the still was burned. However, there was no evidence that she had anything to do with the manufacture of the intoxicating liquor. Jones v United States (19th Cir. 1966) 365 F2d 87.

A co-defendant who was on the scene of events which positively or by fair inference could be deemed part of moonshine liquor distribution conspiracy but who was not linked to any integral element of the plan except by presence and association was not guilty of conspiracy to possess and transport nontax-paid whiskey. Neither association with conspirators nor knowledge that something illegal was going on, by themselves constitutes proof of participation in conspiracy. United States v Webb, (6th Cir. 1966) 359 F2d 558.

"Nobody is liable in conspiracy except for the fair import of the concerted purpose or agreement as he understands it... If later comers change that he is not liable for the change; his liability is limited to the common purposes while he remains in it." United States v Peoni, (2nd Cir. 1938) 100 F2d 401.

1. UNGER"S EXECUTION OF NOTES

In 1962 and 1963 Unger and J. Wagner got together and Wagner, having purchased property in the Lake Elsinore area, sold a portion of the property to Unger (Tr. 2339), for which Unger executed notes and trust deeds. The notes executed by Unger were genuine and not sham securities. They were valid legal security interests in lots that Unger in fact owned. They were not valueless.

Unger's testimony is that he was purchasing the lots and tha John Wagner agreed to pay off the entire encumbrance on the property so that Unger would own the lots down to a first trust deed (TR 2343). At that time his notes would be the sole encumbrance on a legal lot, close to a lake recreational area. Unger bought the land as a speculative venture -- if the land values had continued skyrocketing, Wagner would have paid off the first trust deeds and Unger would then pay Wagner on the second trust deeds, which would now be first trust deeds. Thus Unger would have an interest in the land and Wagner would have valuable first trust deeds. However, the market collapsed, land values in the area dropped (Tr. 406), so Unger paid nothing on the trust deeds as he knew that there was no equity in his lots when J. Wagner failed to pay off the blanket encumbrance, which Wagner failed to do apparently because of the drop in land values.

According to Unger, the $1, 250 notes he executed would have been the sole encumbrance on the lots which would be worth more than the trust deed (Tr. 2343). If the minimum value was deemed to be less than $1, 250, then Unger would have no real value in the lots. It is to be noted that Unger never traded the lots, and that the trust deed of $1, 250 had some value, which would be approximately the value of the lot for which the security for the note.

Unger must have intended to enter into a conspiracy to defraud property owners of their property by misrepresenting to these property owners that notes secured by trust deeds were valuable. Since he did not directly make any misrepresentations, he must have agreed

with John Wagner that Wagner would misrepresent the value of the land that was secured by the trust deeds, as well as any payments that may or may not have been made by Unger. The only plausible reason for this agreement would be that Unger would get part of the proceeds from the fraud perpetrated by John Wagner on property owners by misrepresenting the value of the notes secured by trust deeds executed by Peter Unger. The evidence is completely devoid of any showing that Unger participated in the profits of the purportedly defrauded people. Unger did not in any way participate in the sale or trading of these notes secured by trust deeds which were owned by John Wagner and or his assignees. The government exhibits and sequestration of all books and records of the three defendant corporations failed to reveal that Unger ever received anything from these corporations. Further, Unger was never an officer, director or shareholder of said corporations.

2. ASSUMPTION OF INITIAL CONSPIRACY BETWEEN UNGER AND J. WAGNER.

If it be assumed that Unger signed the notes and agreed with John Wagner that Wagner would misrepresent the value of the notes to third parties, that Unger would participate in the profits so that Unger could be said to have a concert of purpose with Wagner, the conspiracy would be limited to the actions of John Wagner transferring the notes to third parties. There would be no agreement to bring additional parties into the arrangement and share the profits with them. John Wanger's transferring these notes to GRR and other corporations he had an interest in, with his co-partners Christensen, Jongeward and others

but not Unger, would then have the effect of terminating the Unger-Wagner conspiracy.

In the case of United States v Peoni, supra, Peoni sold counterfeit bills to Regno who sold the same bills to Dorsey who was arrested trying to pass them to an innocent party, all three parties having knowledge that the bills were counterfeit. Peoni's conviction was reversed on the grounds that his knowledge that further sales were likely was insufficient to connect him with the remote vendee. The court reasoned that Peoni's utterance of the bills was indeed a step in the casual chain which ended in Dorsey's possession but that was all. The law is unsettled whether or not a seller knowing the buyer's criminal purpose is a conspirator with him. However, no one has held that a contract is criminal because the seller has reason to know, not that the buyer will use the goods unlawfully, but that someone further down the line may do so.

A distinction was drawn in the subject case between knowled that remote links must exist and knowledge that they may exist, with liability restricted to the former situation. If it be conceded that the notes secured by trust deeds executed by Unger were sham when he delivered same to J. Wagner, since Unger had no knowledge of when or how or to whom these trust deeds would be negotiated by Wagner, his connection with purchasers of these instruments would be remote.

The court further reasoned that assuming Peoni and Regno agreed that Regno should have possession of the bills, it is absurd to say Peoni agreed that Dorsey should have them from Regno.

In the instant case, assuming argumento that Unger and J. Wagner agreed to execute sham notes (counterfeit securities) and that Unger was given something of value by J. Wagner in consideration of Unger executing same, and Unger knew that J. Wagner would transfe these sham notes to GRR and GRR would transfer same to innocent parties, there is no conspiracy since there is no concert of purpose.

The evidence is that no other defendants executed trust deeds and then traded them again, indicating the relationship with Unge to be unique. The other defendants did trade trust deeds executed by other parties who are not defendants and Unger is in the exact same position of these innocent parties, i.e., he simply bought property and executed purchase money trust deeds back to the seller, John Wagner.

Wagner was the owner and had complete control over the no and trust deeds. Unger had no legal right to these notes and absolutely no way to direct Wagner or his confederates in disposing of same. There is no evidence even inferring that Unger had a proprietary interest in these trust deeds.

The inference that Unger remained a participant in the profits to be realized by Wagner and his confederates, trading the notes secured by trust deeds executed by Unger, by misrepresenting their value, is devoid of reason. Any misrepresentation would harm Unger since he was the obligor on the notes. He would be a debtor who, in effect, operated in league with his creditor, Wagner and his assigns, to convince third parties that Unger was a good credit risk. Unger then ends up with the property which is an immediate

embarrassment to him. There is no necessity for Wagner to do this since the property itself could be traded with the same convincing' force as trading the trust deeds, since the property is the only security for payment on the notes.

It is to be considered that a good deal of time passed from 1962 and 1963 when Wagner purchased the lots, to when he sold them in 1964 and 1965.

Even after the lots were sold to Unger and trust deeds created, one to two years passed before Wagner traded the trust deeds. And this was not only with Unger's trust deeds, for Wagner did not deal exclusively with Unger, but also with Garth Slate, Don Vance, Alvin Stewart and others in selling lots and securing notes and trust deeds.

The fact that property owners did not rely upon the notes and trust deeds as a material consideration in their trading and selling to GRR, Wagner and Christensen, is indicated by the following: 1) Failure to secure title policies; 2) failure to record the trust deeds after accepting them; 3) failure to contact the obligor prior to their sale to verify an indicated payment record; 4) admissions of parties that they relied basicially upon the statement of the great financial assets of GRR and John Wagner; 5) failure to investigate the land upon which the trust deeds applied, and a general apathy on the part of many of the holders of Elsinore trust deeds. Almost no effort was made by parties to investigate before taking the trust deeds, nor to pursue actively to collect or foreclose upon the property.

Some of these supposedly defrauded parties were just plain anxious to unload their financially distressed properties for any kind of deal at all, including trust deeds some of which had become worthless through foreclosure, thus the fact that Unger executed notes was immaterial.

Sometimes it was indicated that payments had been received on the notes. It is to be noted that the records were all John Wagner's records, and the entries all Wagner's entries.

If John Wagner and Unger were acting together, Unger surely would know what Wagner was doi ng. It is incredible to assert that Unger conspired with Wagner and other defendants to trade notes that Unger was obligated on, when Wagner's statements to third parties was not what Unger stated and when there was great embarrassment caused to Unger by Wagner's statements and actions.

3. TRANSFER OF NOTES EXECUTED BY UNGER

The testimony is that notes and trust deeds on Lake Elsinore property where Unger was the obligor were given the following parties: 1) Aloha Estates Investors; 2) Robert D. Haney; 3) Charles Shorts and 4) Dr. George Barkdoll. A short analysis of each of these transactions and lack of involvement by Unger is as Follows:

ALOHA ESTATES:

Aloha Estates was a large subdivision project in Hawaii owned by three Hawaiian corporations. In the spring of 1965, the project was selling poorly, obligations were coming due which could not be met, and things were quite distressed.

Aloha Estates was on the v erge of bankruptcy (Tr. 863, 2461, 2462).

Aloha Estates was sole to GRR on May 1, 1965 (Tr. 866), GRR assuming its obligations and giving a second mortgage of $203,70( (Tr. 855). Subsequently it was determined the title given by Aloha Estates was deficient, clouded by Internal Revenue Liens, and in an impasse situation wherein GRR refused to make its payments or to rescind the entire sale. A secondary compromise agreement was reached wherein GRR demanded the majority stock in the three corporations which owned Aloha Estates for .50 on the dollar, in exchange for Lake Elsinore trust deeds. One of the shareholders inspected the Lake Elsinore area and recommended the exchange, due consideration being given to the misrepresentation of title by Aloha Estates and the possible liability thereby incurred.

In September 1965 GRR gave the Hawaiian shareholders the notes and Lake Elsinore trust deeds, upon which Peter Unger was obligated to make payments, said trust deeds executed November 30, 1964; however, some lots had been foreclosed upon by a prior mortgagor in mid-1965. Peter Unger had no knowledge of the details of the Aloha Estate sale and compromise agreement for he was not associated with GRR.

About December 1, 1965, Unger accepted an offer from John Wagner to go to Hawaii as president of Aloha Estates and to attempt to straighten out the financial difficulties of that project. Unger was to get 50% of the profits made from Aloha Estates. Later i December GRR sold all of its interest in Aloha Estates to Unger.

John Wagner did not tell Unger that GRR had given the Hawaii people worthless notes and trust deeds of Lake Elsinore lots on which Unger was the obligor, worthless only because at that time some of the lots had been foreclosed upon.

John Wagner and Christensen completely undermined Unger's position as president and owner of Aloha Estates and his attempts to breathe solvency into that project, by giving the former owners of Aloha Estates these trust deeds which they knew to be worth-less, and by indicating on some that Unger had and was making payments, when he had not and was not. It is possible that Wagner cou have credited Unger for monies owed by such credit on some notes, but not on notes and trust deeds which had already been foreclosed upon. This made Unger look like a fool, trying to refinance and save the Aloha Estates project yet apparently being the deliquent obligor on numerous trust deeds. It was as much a fraud upon Unger as upon the shareholders of the Aloha Estates Corporations. All of this is further evidence of a lack of any agreement or conspiracy between Unger and John Wagner to defraud others.

The testimony shows that when Hawaiian persons such as Mr. A. Lee Brown and Mrs. Harvey King contacted Unger and asked about payments on Unger notes and trust deeds, Unger made two payments to Brown (Tr. 909), and advised Mrs. King he would make payments to her as soon as he checked with Wagner about the validity of the trust deeds (Tr. 1209). This is consistent with Unger's testimony all along, that Wagner could have paid off the first trust

deeds and made payments on the seconds for monies owed Unger, and thus the trust deeds would have good value. During this time Unger had no knowledge or control of the notes and trust deeds or of any misrepresentations made by John Wagner.

On checking, Unger was told by Wagner that the trust deeds were good, indicating that there was value in them and that Unger should continue making payments. Unger rechecked (Tr. 2351), and found out the opposite, that they were valueless, since they had been foreclosed upon by a prior lienholder. (Tr. 2352) Since there was no present value in the trust deeds nor in the land Unger held title to, Unger made no further payments.

Thus when Unger discovered that he was president of a company not only near financial disaster, but purchased with worthless trust deeds with his name as the obligor, he told Wagner he wanted no more part of Aloha Estates; immediately left the whole situation.

Unger's telegram renouncing the entire situation was as follows: "The Aloha Estates deal too big for me. You and Robert Wagner received the money. I see no future in the deal except trouble for me. Will try to get you off the hook by sale to Robert Wagner. Prepare papers from you to Robert Wagner. I will not touch this deal." (Tr. 809, 2353)

The inference drawn by the government that Unger agreed ahead of time to share profits with GRR is not reasonable. Unger did not negotiate any part whatsoever of the sale of Aloha Estates to GRR. The original agreement of sale to GRR involved a second mortgage,

but no Unger trust deeds. It was only after it was discovered the Aloha Estates group had transferred clouded property that a modification was entered into by GRR to give Unger trust deeds for additional property, i. e., majority control of three Hawaiian corporations owning Aloha Estates. GRR had sold the major asset of Aloha Estates, by selling a second mortgage, before selling the near worthless balance to Unger. Nothing in the transaction indicates that Unger collaborated in any manner with John Wagner and/or his associates in the purchase of the Hawaiian property.

ROBERT D. HANEY Property, two duplexes in Portland, Oregon:

In November of 1965 Robert Haney sold to GRR two duplexes. Haney relied considerably on the financial statement of GRR shown to him, and in the agreement signed by J. Wagner, sold his property for an assumption of the two existing mortgages and a $7,500 note and trust deed on Lake Elsinore property. Peter Unger was the obligor on the note.

Haney checked with the title company, and found that the note previously had been assigned. Christensen, on demand, delivered a replacement note to Haney, upon which Unger again was the obligor. A title check again by Haney showed that this one also had previously been assigned. Christensen then replaced the second note with a third Unger note and trust deed.

Another check revealed that there was a defect in the title description of this third trust deed. Haney contacted Christensen, who stated he would see about getting this corrected by a new trust deed.

The original was from Unger to J. Wagner, then assigned to GRR, then to Haney. Haney contacted Unger who replied that he would gladly cooperate but Unger was never contacted by Christensen or J. Wagner to sign a corrected trust deed.

Such actions clearly show that GRR and its partners were extremely negligent and loose in trading trust deeds for property, and there was certainly some degree of carelessness in the parties they dealt with in failing to check the validity of the trust deeds before deeding their property away. It is quite conceivable that representations with respect to trust deeds Unger had executed were honestly made, and that misunderstanding arose due to negligence of J. Wagner and his associates other than Unger.

THE CHARLES SHORT'S PROPERTY. Shorts owned a motel in Pismo Beach, California. One of the defendants, Alvin Stewart, talked Shorts into trading his motel to John Wagner for some Lake Elsinore trust deeds. Stewart represented that the trust deeds were "as good as gold," (Tr. 140). On February 9, 1965 Wagner gave the Shorts a note and trust deed on which Unger was the obligor (Tr. 153). The notes did not reflect that any payments had been made on the notes, although they had been created in November 1964, and thus were apparently three months delinquent (Tr. 154).

Shorts stated that he relied entirely upon the word of Stewart who said that even if Wagner did not make good on the notes that he, Stewart, would. This is interesting,for Unger and

not Wagner, was obligated on the notes. Shorts admits that Wagner was described to him as a wealthy speculator in land and further Shorts relied upon his trust in Stewart to protect his interests, and not in the trust deeds. Any loss Shorts suffered was from his misplaced trust, not from any alleged conspiracy on the part of Unger with others. There is no evidence that Unger received any benefit whatsoever from this transaction, or that he even knew about it.

BARKDOLL PROPERTY. Dr. Barkdoll listed his property for sale in October 1964 and entered into an exchange agreement with GRR August 7, 1965. The fact that persons dealing with GRR in trading their properties for trust deeds on Elsinore property were not looking to the face value of these trust deeds is here indicated where in lieu of $5,000 cash, Barkdoll agreed to accept $10,000 in Elsinore trust deeds (Tr. 653).

Barkdoll in selling his property to GRR made no investigation as to the trust deeds. He did investigate as to the assets of GRR Development Company, finding out that it was a sizable organization, was purchasing ten million dollars worth of property in the Portland, Oregon area, and that they were purchasing the Hollywood Towne House luxury apartment building. He checked with the real estate commissioner of the state of Oregon and with Dun and Bradstreet (Tr. 653).

Barkdoll testified (Tr. 673), that when no payments were forthcoming on the trust deeds when due he contacted GRR and that

they made the payments direct to him, for both the first and the second months payments. This occurred after Barkdoll had mailed notices to the obligors on the notes and trust deeds to make payments directly to him. It is obvious that Barkdoll was looking to the financial ability of GRR rather than the obligors of the notes for payment. Of the four notes held, only on one was Unger an obligor. When the third and fourth payments were not made, Barkdoll went to Mr. Christensen (Tr. 676), and traded the notes back to GRR for an interest in real property. (Tr. 678)

This clearly indicates that GRR knew at the time they traded the notes and trust deeds that they were valueless, that the property secured by such was in the process of foreclosure, and that Unger and the other obligors were not expected to make any payments. Barkdoll did not look to the notes for payments. Their only value was in the representations of the financial assets and ability of GRR. Unger knew nothing of the transaction nor did he profit one cent thereby.

The notes secured by trust deeds signed by Unger were not actually securities within the meaning of section 77q since the California legislature has abrogated the common law liability attached to these notes so that there is no personal liability on same. Therefore, securities were not involved in the case of the notes executed by Unger. California Code of Civil Procedure 580 (a), 580 (b), 580 (d) and 726.

4. UNGER PROPERTY PURCHASES

On several occasions Unger purchased property from John Wagner and GRR Development Company, Inc.. These purchases were subsequent to the purported fraud on the sellers and there is no showing or inference that this aided or abetted a fraud. All defendants and third parties, by their actions and words, treated Unger as an independent purchaser, and Unger's own actions further reinforce this status. His letters to John Wagner stating "you" cheated Robert Wagner and Unger's letter to GRR stating that the deal was too messy for him and that he would help "you" out, negate any inference of Unger being a confederate, partner, joint venturer or other common schemer with the other defendants. (Tr.1009)

The entire modus operandi of John Wagner, Christensen, Jongeward and their three controlled corporations was to acquire property and pyramid upwards with all properties held in common by them. There is no distribution of properties among these confederates, but rather a constant attempt to build together. The dealings with Unger are completely apart from this pattern and hence these Unger deals were exactly as the parties indicated, i.e., arms length transactions.

Irma and Ellis Harris testified that they sold property to Wagner which was deeded to Unger. This transaction is apparently not one of the overt acts alleged in the conspiracy, although it does show some real estate dealings between Unger and

Wagner. A short analysis of this transaction is as follows:

THE HARBOUR LIGHTS Apartments owned by the Harris'. They owned an interest along with Christensen and sold their interest to Christensen, who sold the entire interest to Peter Unger. (Tr. 57). Unger shortly thereafter sold the apartments to John Wagner and received from Wagner a $45,000 note and trust deed in the transaction (Tr. 57).

This evidence shows only that the parties dealt with one another on specific deals. Unger was a speculator in property, buying generally with the sole intent to sell, not to hold for investment purposes. There is no evidence here to show a conspiracy between Unger and anyone to defraud. It was just an in-quick out-quick transfer of property, with Unger making a profit by securing the trust deed from John Wagner. It merely shows that the parties dealt with each other on certain specific occasions when a particular deal would be in the offering.

Seven duplexes owned by the Harris' were sold to John Wagner who assumed the loans against the property and in addition gave 9 trust deeds upon which D. D. Vance and Monica Vance were obligated to pay (Tr. 32, 47), Wagner then sold the property to Unger shortly thereafter and took back from Unger a trust deed in the amount of $18,000 (Tr. 67). There is no evidence of a conspiracy as to what each party intended to do with his property, and no tie in whatever with the alleged conspiracy in the indictment that Unger, Wagner and others conspired at some

indefinite time, presumably in 1963 or 1964, to issue worthless securities for the purposes of defrauding people. All the evidence here shows is a business like transaction between two businessmen dealing at arms length, who are both buyers and sellers of real property.

Mrs. Harris testified that there was a discrepancy on the name on the deed given to the escrow holder (Tr. 37). John Wagner, in purchasing the property with the intention of reselling it, in order to save escrow and title charges, apparently had the deed to him signed in blank so that when he sold the property he could simply insert the name of his buyer. When Unger bought the property from Wagner, Unger's name was placed on the deed. When Unger couldn't resell the property to others he sold it back to Wagner and received a second trust deed.

The transaction is not particularly unusual when it is remembered that both men were dealers in real estate, not investors, and all property purchased by either of them was simply inventory to be liquidated as quickly as possible. There is nothing collusive about the transaction. If the purpose was to create a second trust deed from Wagner to Unger, this could have been done simply by taking title in Wagner's name and Wagner creating a secon d trust deed to Unger, and no transfer of title to the property would have been required.

Ruth Chesney testified that she sold some apartments to GRR which GRR subsequently sold to Unger. A short analysis of

this transaction is as follows:

The Champion Oaks Apartments were sold to GRR for unsecured GRR notes, plus the assumption of the mortgages and debts on the property, May 12, 1966 (Tr. 2023). GRR sold the apartments to Unger May 24, 1966 (Tr. 2025). Here there is no connection whatsoever with the alleged conspiracy to issue fraudulent securities. This was a separate transaction, and GRR alleged that Unger still owed them money from that sale (Tr. 2033). There was nothing to show that the sale was not an arms length purchase. If GRR defrauded Chesney, the sale to Unger in no way facilitated the fraud.

The transaction is inconsistent with collusion or conspiracy and merely shows two separate business sales of property to speculators, first to GRR, then to Unger. The government alleged that Unger didn't assume the rents as he promised GRR and that he stole the furniture (Tr. 2031). What Unger did with the property once he owned it has no connection at all with the alleged conspiracy to issue fraudulent securities and the introduction of said evidence was improper and highly prejudicial. Once the property was purchased by GRR the relationship with Chesney was fixed and if it was perfectly legal for GRR to sell the furniture then correspondingly GRR's purchaser, Unger, was completely free to sell the furniture.

THE SMITH-ALLISON PROPERTY. This consisted of an old 12 unit auto court in Oceano, California (Tr. 156).

Christensen contacted Smith with an offer to purchase the property, which was listed for sale at $100,000. Christensen apparently acted as a broker and that Unger would be the buyer (Tr. 159).

An escrow was entered for the sale in exchange for Elsinore trust deeds and escrow instructions were purportedly signed by Unger as the buyer (Tr. 162). Smith and Allison, on recommendation of their attorney, went to Elsinore to look at the property covered by the trust deeds. Fifteen of the offered trust deeds were in the Mutual Benefit Tract, 3 miles from the lake, and seven trust deeds were on the Paonessa property, about seven miles from the lake (Tr. 164). Apparently these trust deeds were not those that were signed by Unger. After looking at the property Smith attempted to contact Christensen to work out some kind of a deal but was never able to make such contact, therefore no sale was ever consumated.

This is just further evidence of land speculators and brokers trying to put together an exchange. It is in no way evidence of an alleged conspiracy to issue fraudulent securities.

This is the only transaction whereby any of the defendants purported to represent Unger in any fashion, be it broker, agent or otherwise. It is significant that Smith and Allison wanted to consummate an exchange with Unger, but were unable to communicate this desire to Unger via Christensen, thus inferring that no close relationship existed between Unger and Christensen. There is no transaction wherein third parties were ready and willing

to purchase properties from GRR of J. Wagner in exchange for trust deeds where the transaction failed to take place, thus once again pointing out that Unger was not a partner or joint venturer with the other defendants.

Further, Exhibit 42-A, although purported to be signed by Peter Unger, upon comparing his purported signature with his true signature on other documents, reveals that it is not in fact his signature. The fact that Unger's signature is not genuine clearly establishes why this transaction was not consummated and the fact that Christensen was not authorized to represent Unger as a broker or otherwise.

The evidence shows that John Wagner and his associates, Christensen and Jongeward, together with their three wholly owned corporations, made hundreds of offers on properties and used hundreds of brokers. Some brokers were used more than once. The fact that Unger purchased property on several occasions from these defendants and acted as a broker on other occasions is not unusual in view of the volume of property dealings by these parties. It is particularly not unusual as to Unger, since he was in the business of buying and selling property for his own account for many years as well as being a licensed real estate broker.

Apparently the prosecution is inferring that because Unger bought properties from these defendants he was conspiring with them even before they purchased the properties. This is a non sequitur. Once people were defrauded and title passed, what the

GRR principals did subsequently with the property in no way misled the original owners or assisted in perpetrating the fraud. Even if Unger knew the other defendants defrauded property owners, it is no inference that Unger conspired ahead of time to assist in the fraud. If Unger had conspired, what purpose was achieved by transferring title to the properties from GRR to him? If all were in a common enterprise the profits would have been divided when they were realized, either by holding the property and sharing the income or by selling the property to entirely independent parties and sharing the proceeds. To infer that eleven parties conspire to defraud a person of property, and ten of these get legal control of that property and then divest themselves by giving title and control to the eleventh person, does not make any sense. Property secured by GRR associates through their alleged fraud was never deeded to any of the other ten defendants, so the parcels sold and deeded to Unger are indicative of a legitimate sale rather than any prearranged scheme to parcel out properties obtained by the various defendants.

LISCHNER PROPERTIES. These were four deluxe homes in Beverly Hills (Tr. 243). Built by a speculator, they were in financial distress, the builder being unable to sell them or secure long term financing (Tr. 268). John Wagner purchased one of the houses with Elsinore trust deeds signed by Garth Slate (Tr. 246). Wagner told Unger of the houses, and Unger purchased three of them, by agreeing to assume the existing mortgages, bring

deliquent interest and taxes current, and give three notes of his own. (Tr. 255)

There is no evidence that this had any connection at all with the original trust deed transactions between Wagner and Unger on Lake Elsinore property. It is a complete, separate transaction. Each purchased differently, Wagner with trust deeds, and Unger with notes and an assumption agreement. Lischner dealt with each party separately.

If there was any conspiracy at an earlier time concerning Lake Elsinore trust deeds, there is no evidence whatsoever that such had any bearing on the Lischner transactions, and this evidence should not have been admitted for it proves nothing in regard to any earlier conspiracy. Even when admitted there should have been a limiting instruction given by the court.

In summary, the evidence is insufficient to support the conviction of Unger. No reasonable inference can be drawn from the evidence that an agreement of any kind was reached with Unger with respect to the disposition of the seven named securities. Therefore, the conviction of Unger should be reversed.

F. <u>IT IS A DENIAL OF DUE PROCESS OF LAW UNDER THE 6TH AMENDMENT OF THE U.S. CONSTITUTION TO FIND THE DEFENDANT GUILTY WHEN HE WAS NOT REPRESENTED BY REASONABLY EFFECTIVE COURT APPOINTED COUNSEL.</u>

Under the 6th Amendment to the U.S. Constitution, the defendant is entitled to have the assistance of counsel for his defense and also to have compulsory process for obtaining witnesses in his favor. To one accused of crime these are very substantial rights.

In <u>MacKenna v Ellis</u>, C.A. Tex. 280 F2d 592, the court stated: "We interpret the right to counsel as the right to effective counsel. We interpret counsel to mean not errorless counsel, and not counsel judged ineffective by hindsight, but counsel reasonably likely to render and rendering reasonably effective service."

And further in the same case: "(A) trial court who appoints fledgling attorneys cannot wash its hands of their mistakes; an essential element of fair trial is trial court's sensitivity to protecting accused against hasty trials and against obvious mistakes of young, inexperienced, appointed counsel."

In the case of <u>Entsminger v Iowa</u>, 386 U.S. 748, 87 S. Ct. 1402, 18 L Ed 2d 501, the court held that an Iowa indigent who desired that his assigned attorney perfect a plenary appeal was deprived of the right to effective assistance of counsel by the attorney's decision to use Iowa's truncated clerk's transcript.

In <u>Anders v California</u>, 87 S. Ct. 1396, 386 U.S. 738, 18 L. Ed 2d 493, the court held the defendant was denied right to counsel where his appeal was dismissed after appointed counsel had informed

the court that appellant's appeal was without merit.

In the case of Peyton v Coles, 389 F2d 224, (C.A. 4th 1968), the assigned counsel at a rape trial failed to investigate reputation of prosecutrix for chastity, to interview potentially favorable witnesses, to explain to and to interrogate defendant about penetration entitled him to grant of federal habeas corpus in absence of affirmative proof by state that defendant was not prejudiced by his counsel's omissions and failures. The burden of proof of proving effectiveness of counsel was thus shifted to the government.

Keeping in mind that this was a fourteen day trial and the Reporter's Transcript consists of 2,777 pages, involving 108 witnesses, the following is every action that the representing attorney took.

On February 28, 1967, by order of the court, Thomas P. Price was appointed counsel for Peter C. Unger. On March 24, 1967, the attorney filed a Motion for Severance of Defendant, and a Motion to Sever Counts in Indictment. Both motions were denied.

On March 27, 1967, the attorney filed a Motion for Transfer of Case to the District Court of California, Southern District, which was denied.

On June 24, 1967, the attorney stated to the Court that he could not stipulate to the authenticity of certain exhibits pertaining to defendant Peter C. Unger and their admissibility before the time of trial. On June 26, 1967 the attorney filed a Stipulation relating to Exhibits. This is the complete extent of pretrial activity by the attorney. Not filed was a trial brief nor a request for service upon

witnesses nor suggested questions in voir doiring the jury nor any request for travel funds or expenses to interview witnesses.

The trial started July 18, 1967, with the first testimony on July 19, 1967. On that date the attorney joined in motion for mistrial because of publicity of newspaper articles (R. T., p. 17). On that day six witnesses testified, all involving or implicating the defendant. The attorney made no objections of any kind, did no cross-examination, nor did he speak, except to say, "No questions."

On the third day of trial, July 20, 1967, ten witnesses testified, eight of which involved or implicated the defendant. The attorney did a short voir dire of witness, Raymond Paonessa and made one objection which was sustained (R. T., p. 315).

The attorney objected to the relevancy to a question asked witness Donald F. Zimmer, and was overruled. (R. T. , p. 364). The attorney further objected to the asking of a leading question of this same witness, and was sustained (R. T., p. 380). No other objections, no cross-examination by this attorney.

On the fourth day of trial, July 21, 1967, thirteen witnesses testified, six involving or implicating the defendant. The attorney did a very brief cross-examination of one witness, Fred B. Harris (R. T., p. 636). No other cross-examination or objections made.

On the fifth day of trial, July 24, 1967, seventeen witnesses testified, sixteen giving testimony involving or implicating the defendant. The attorney was near mute the entire day.

On the sixth day of trial, July 25, 1967, seven witnesses

testified, five giving testimony involving or implicating the defendant. The attorney was near mute the entire day.

On the seventh day of trial, July 26, 1967, seventeen witnesses testified, four giving testimony involving or implicating the defendant. The attorney was near mute the entire day.

On the eighth day of trial, July 27, 1967, twelve witnesses testified, four giving testimony involving or implicating the defendant. The attorney asked for a limiting instruction as to testimony not involving the defendant which was given by the court (R. T., p. 1577).

The attorney made one objection to the testimony of James McClosky, which was sustained (R. T., p. 1598). No other objections nor cross-examination.

On the ninth day of trial, July 28, 1967, twelve witnesses testified, three giving testimony involving or implicating the defendant. The attorney was near mute the entire day.

On the tenth day of trial, July 31, 1967, twenty-one witnesses testified, three giving testimony involving or implicating the defendant. The attorney was near mute the entire day.

On the eleventh day of trial, August 1, 1967, one witness and the defendant testified.

The attorney moved for a directed verdict of acquittal on the ground and for the reason that there is a failure of proof, which motion is denied (R. T., p. 2269). The attorney gave argument supporting his motion (R. T., p. 2269 to 2272).

The attorney moved to strike Overt Act No. 20, and the court reserved judgment on said motion (R.T., p. 2277).

At the conclusion of the direct examination of defendant Unger, the attorney elicited as follows: (R.T., p. 2362-2363)

PRICE: Now, as you know, Mr. Unger, you are charged in one count in what originally was a seventeen count indictment. There are several counts that have been -- at least three counts that have been dismissed as of now. Excuse me, it is a sixteen count Indictment. But, as you know, you are charged in just the one count on conspiracy; is that right?

UNGER: That's right.

PRICE: Now, I am going to ask you, Mr. Unger, you have sat here now and you have heard all of these transactions from these various people. I think there were 109 witnesses that testified in this case prior to the defense putting on their testimony.

UNGER: Yes, sir.

PRICE: And you are charged in this conspiracy with, among other things, of course, conspiring to defraud the United States of America and/or an agency thereof.

MR. SEPENUK (Prosecuting attorney) : To correct the record, he has not been charged with that at all. He is not named in that---

PRICE: Oh, am I confusing that with 14, Mr. ---

SEPENUK: That is 14 that you just mentioned. He is not charged with that. He is charged in Count 1, which is not the count

charging fraud against the government. He is charged with mail fraud and the securities fraud.

PRICE: Thank you, Mr. Sepenuk, you are absolutely right.

Further on this day, the attorney again requests a ruling on the motion to strike Overt Act No. 20 (R.T., p 2383).

The attorney speaks once more, to advise the court that his argument will be brief (R.T., p. 2391).

On the twelfth day of trial, August 2, 1967, one witness testified, whose testimony involved and implicated the defendant, and the defendant completed his testimony. The attorney made one objection, during the cross-examination of the defendant, as to the introduction of a letter, without the witness first reading it, which was sustained, (R.T., p. 2448).

On the thirteenth day of trial, August 3, 1967, the attorney spoke on five occasions. He got stricken words from Overt Act No. 20 that Unger "represented himself as an officer of Golden Rule Development" (R.T., p 2657).

The attorney made a motion for a Directed Verdict of Acquittal, which was denied (R.T., p. 2664).

The attorney objected to any merger of the two counts of conspiracy (R.T., p. 2670).

The attorney requested a ruling on his objection as to any merger, which was sustained (R.T., p. 2675).

The attorney asked the court as to the propriety in discussio of non-controversal elements of the crime of conspiracy in argument

to the jury (R.T., p. 2679).

On the fourteenth day of trial, the attorney stated that he had no comments as to the proposed jury instructions by the court (R.T., p. 2716). The attorney did not submit any requested jury instructions.

The attorney discussed the court's instructions as being prejudicial to the defendant; but then stated that he was not critical of the court as that was the only way that the court could instruct (R.T., p. 2771).

Thus, in a fourteen day trial, involving the testimony of 109 witnesses, of which 49 gave testimony involving or implicating the defendant, the attorney spoke on but twenty-one occasions, and made but three objections and cross-examined but once and then only briefly. It is difficult to envision a contested criminal action in which there would exist no necessity for cross-examining at least some of the prosecution's witnesses.

In Cofield v United States, 263 F.2d 686, 688 (9th Cir.), the court quoted the following from Edwards v United States, 78 U.S. App. D.C. 226, 139 F.2d 365: "The right to the assistance of counsel means effective assistance."

The attorney, after ten days of trial, is so incompetent and confused that on direct examination of his own client, asks him if he isn't indicted on another count entirely separate from that which the attorney is representing the defendant, and the prosecutor has to straighten the attorney out. This conduct was embarrasing and highly

prejudicial to the defendant.

At the conclusion of the government's case, Unger's attorney moved for a directed verdict and argued as follows (R.T., p. 2664):

"But the thing is that Mr. Unger, being involved in only Count I, I can't see, your honor, where they have shown anything, except through inference and that is that it amounts to, and there are several inferences. There are probably many of them, but all these transactions infer that Mr. Unger was part of this conspiracy to defraud the United States of America or its agencies and, in this particular case, the Federal Housing Administration. And I say that the proof is completely devoid of any evidence that Mr. Unger was in this conspiracy to accomplish the ends that the government has attempt to prove..."

It is clear from the argument at the conclusion of the case that Unger's attorney thinks he is charged with a conspiracy to defraud the United States of America. Thus revealing that he believes the most important part of the case against Unger is the inferences that he agree to defraud agencies of the United States, particularly the Federal Housing Authority. He makes no references to any other victims or specific transactions. He has totally missed the point of the prosecution's case and mistakenly is defending against Count XIV in which Unger is not charged. The attorney's trial strategy is thus revealed to be totally irrelevant to the specific charge against Unger.

The failure to object often to the evidence introduced is indicative only of the amount of action that the attorney took, not as to the possible propriety of his remaining silent.

The attorney's near complete failure to cross-examine is again indicative of the lack of action taken by the attorney.

The failure to file a motion for the issuance of subpoenas and the failure to call any defense witnesses is incredible in view of Unger's decision to take the stand and fight. The failure to move for misjoinder under Rule 8 (b) was highly damaging to Unger.

The overall effect is akin to no representation whatsoever, for the accused's defense would have been as well presented had he had no attorney at all. The representation afforded was thus not effective assistance of counsel and Unger was denied due process of law.

The refusal of the court to allow expenses for interviewing witnesses as well as the subpoena expenses, also prevented Unger from obtaining due process of law.

G. THERE WAS A MATERIAL VARIANCE BETWEEN THE PLEADING AND PROOF REQUIRING A REVERSAL AS TO DEFENDANT PETER C. UNGER IN THAT MULTIPLE CONSPIRACIES WERE ATTEMPTED TO BE PROVEN UNDER COUNT I.

The proof demonstrates that each overt act alleged under Count I was in fact, a separate conspiracy, if there was in fact, any conspiracy at all. The alleged agreement had as its object, the violation of the anti-fraud section of the securities act directly and by the use of mails. The indictment is vague as to when this agreement was entered into. The period of time covered is apparently commencing prior to 1963, when Unger executed trust deeds and ending on the date of the indictment on December 7, 1966, a period in excess of three years. Of the 64 overt acts listed in Count I, in only 6 is Unger's name mentioned. Every purchase or proposed purchase of property from alleged victims, if there was a conspiracy, was a separate conspiracy. There were at least 23 purchases or alleged purchases of properties listed as overt acts in Count I. The properties ranged from houses to multi-million dollar hotels and apartments and spanned a period of in excess of 3 years. Each transaction was a complex individually negotiated transaction with each property owner having his own individual requirements. None of these properties could have been anticipated in advance to be available for purchase until they were listed for sale by the owners.

Analyzed from the point of view of notes, both secured and unsecured that were created for the purpose of exchanging property,

there would be seven different conspiracies. There were seven different individuals and corporations who signed the notes, all at different times and places. If there were an initial agreement, every time a new party came into the venture, and new notes were used, implicitly a new agreement would have been required to establish the relationship of the parties among themselves.

The one defendant common to the other defendants was J. Wagner, If J. Wagner had an agreement with Unger to use the notes executed by Unger to defraud others and share the profit s in some manner with Unger, J. Wagner's later agreement with each of the othe defendants would be a separate conspiracy. He joined with Christenser and Jongeward at apparently the same time, but each of the other defendants is alleged to have joined at a later time. The relationship of each defendant with J. Wagner was different, even if it be concluded that each conspired with J. Wagner to defraud property owners.

Even if it be concluded that Unger conspired with the defendants on several transactions, where his trust deeds were traded and where he had some connection with the transaction, he would not have conspired in connection with the other transactions, particularly the transactions where GRR issued unsecured notes and fortified same by showing high net worth financial statements. That being the case, the variance would be highly prejudicial to Unger.

In the leading case of Kotteakas v United States, 328 U.S. 750, the petitioner and 31 others were indicted for a single general conspiracy to violate the National Housing Act by inducing lending institutions to make loans which would be offered to the Federal

Housing Administration for insurance on the basis of false and fraudulent information. Nineteen defendants were brought to trial and the cases of 13 were submitted to the jury and 7 were convicted. The' evidence proved eight or more different conspiracies by separate groups of defendants which had no connection with each other except that all utilized one, Brown, as a broker to handle fraudulent applications, who knew, when he obtained the loans that the proceeds w not to be used for the purposes stated in the applications.

The court held the rights of the petitioner were substantiall prejudiced, stating that "if one cannot say with fair assurance after pondering all that happened without stripping the erroneous action from the whole, that the judgment was not substantially swayed by the error, it is impossible to conclude that substantial rights were not affected."

At page 773 "when many conspire, they invite mass trial by their conduct. Even so, the proceedings are exceptional to our tradition and call for use of every safeguard to individualize each defendant in relation to the mass."

The court stated in the Kotteakas case on page 766 describi the burden applicable to the instant case as follows:

"Obviously the burden of defense to a defendant, connected with one or a few of so many distinct transactions, is vastly different not only in preparation for trial, but also in looking out for and securin safeguard against evidence affecting other defendants, to prevent its transference as "harmless error" or by psychological effect, in spite of instructions for keeping separate transactions separate."

The instant case created an infinitely greater burden on Unger than the Kotteakas case because of its multitude of complicated business t ransactions as well as its geographically widespread operations. Such a burden was truly overwhelming particularly when the indigent status of Unger is taken into account as well as the ineffectiveness of counsel.

## H. THE TRIAL COURT ERRED IN NOT SEVERING THE TRIAL OF PETER C. UNGER FROM THE OTHER DEFENDANTS BASED ON PREJUDICIAL JOINDER UNDER RULE 14 OF THE FEDERAL RULES OF CRIMINAL PROCEDURE.

If the court determines there is no misjoinder under Rule 8 (b) of the Federal Rules of Criminal Procedure, then the trial of Unger should have been severed from the other defendants because of the extreme prejudicial effect of a joint trial, under Rule 14. The reasons cited in the argument concerning multiple conspiracies are applicable here and the following are reasons why the joinder prejudicied Unger:

1) Multiple conspiracies were involved in Count I, rather than a single conspiracy.

2) The fact that only 1 of 17 Counts or 6% of the charges pertained to Unger meant that the overwhelming evidence presented did not pertain to Unger and thus greatly confused the jury.

3) Unreasonable expense was imposed on Unger in subjecting him to lengthy trial, the great majority of which did not pertain to him.

4) It was an undue and unreasonable hardship on Unger to subject him to a trial in Portland, Oregon, a place over 2000 miles from his home that he had never set foot in, where the only actual overt acts Unger did, in connection with the purported securities fraud was to execute trust deeds in California some 1 to 3 years prior to the time they were allegedly transferred in violation of the Securitie Law.

5) The vast publicity surrounding the trial and the other defendanta prevented Unger from getting a fair trial.

6) Unger was prevented from calling the co-defendant John Wagner as a witness since he chose not to take the stand.

In the United States v Echeles, (CA 7th 1965) 352 F2d 892, the court held that where it was clear from the record that the codefendant would testify in exculpation if a severance were granted, denial of a severance would be an abuse of process.

In United States v Decker, (CA 4th) 140 F2d 375, the court held where evidence established severance should have been granted to insure a fair trial, a new trial will be granted.

The rationale in the Kotteakos case (supra) is also applicable to prejudicial joinder. The court stated the defendants had a right "not to be tried en masse for a conglomeration of distinct and separate offenses committed by others as shown by this record."

The confusion of the jury with respect to separating the evidence is shown by the court's statement (Tr. 2674): "It would be quite easy for the jury and even legitimate under the instructions, I think, that have been submitted to find them guilty on both Count I and 14 for the same identical acts, and obviously that would not be fair..."

Therefore the conviction of Unger should be reversed based on prejudicial joinder.

I. THE TRIAL COURT ERRED IN ADMITTING ADMISSIONS OF PETER C. UNGER TO AN INVESTIGATION OFFICER, WHERE HE HAD NOT BEEN ADEQUATELY ADVISED OF HIS CONSTITUTIONAL RIGHTS.

James E. McCloskey, an agent for the Federal Bureau of Investigation was permitted to testify at length to admissions made by Peter C. Unger during interviews made on November 17, 1965 and on one additional occasion (R.t. p 1584-1601.) He testified that Mr. Unger was advised of his constitutional rights, (R.T. p 1584), but he did not testify that Mr. Unger was entitled to an attorney and if he couldn't afford an attorney, t he court would appoint one, nor that he had a right to remain silent and that anything he said could b e used against him. He further testified that Unger responded that he felt he had done no wrong and did not feel he needed an attorney, thus inferring that at least the need for an attorney was discussed. However, since there was no inference of Mr. Unger being advised of his right to remain' silent and that anything he said could be used against him, the admonitions were insufficient. The testimony of Unger's admissions were highly prejudicial and were made after the accusatory stage had been clearly reached. The fact that no objection was made to the testimony due to the incompetency of Unger's counsel should not be deemed a waiver of the objection.

James R. Neves, also an agent of the Federal Bureau of Investigation, testified to admissions made by Unger on August 29, 1966 (R.T. pg 1602-1608) He testified that he also advised Unger of his

constitutional rights but did not specify what the specific advice was nor did he testify as to any response Unger made. This testimony of admissions was similarly highly prejudicial and was received subsequent to the accusatory stage being reached and should have been excluded.

The case of Miranda v State of Arizona, (1966) 384 U.S. 436, required that where a person was in custody, prior to interrogation, he must be clearly informed that he has the right to remain silent and that anything he says will be used against him in court; he must be clearly informed that he has the right to consult with a lawyer and to have the lawyer with him during interrogation, and that, if he is indigent, a lawyer will be appointed to represent him. The court further stated that where an interrogation is conducted without th presence of an attorney and a statement is taken, a heavy burden rests on the government to demonstrate that the defendant knowingly and intelligently waived his right to counsel. The case of Carnley v Cochran, 369 U.S. 506, 516 (1962), was cited with approval as follows: "Presuming waiver from a silent record is impermissible. The record must show, or there must be an allegation and evidence which show that an accused was offered counsel, but intelligently and understandingly rejected the offer. Anything less is not waiver."

Testimony that Unger was advised of his constitutional rights was a conclusion and insufficient evidence of waiver. The fact that his counsel did not voir doir the witness is also not a waiver, because of counsel's ineffectiveness. The fact that Unger was not in actual physical custody goes beyond the Miranda case. In Mathis v

United States, 36 L.W. , 4379, the court held that the failure of an Internal Revenue agent to give the Miranda warnings prior to routine questioning was grounds for reversal. In this case the man was a Florida prisoner, but his custody had nothing to do with the interrogation. The U.S. Supreme Court has docketed the case of Kubik v United States, docket No. 309, appealing from the 8th Circuit decision dated May 20, 1968. This case squarely raises the question of whether or not the Miranda warnings are applicable to all governme interrogations made in the course of official investigations that seek to elicit information that can be used in criminal prosecution. Assuming the court holds that the warnings are applicable, the decision will be right on point with the instant case. It is submitted that the court will decide that the warnings are applicable, and that hence Unger should have been so warned, and the failure to do so was reversible error.

Miranda v State of Arizona, (1966) 384 U.S. 436, 86 S. Ct. 1602, 162 Ed 2d, 694.

After the accusatory stage was reached, the defendant should be advised of his constitutional rights.

Chapman v State of California, (1967) 386 U.S. 10

Mathis v United States, 36 L.W. 4379, Failure of IRS agent to give the Miranda warnings before questioning a Florida prisoner was grounds for reversal.

Docket No. 309 Kubik v United States, C.A. 8 (5-20-68) Court held that Alcohol and tobacco Tax Unit Investigator's failure to give Miranda warnings to night club owner during pre-custody interrogation at night club, did not bar use against him of statements made to

agent. A question presented to the Supreme Court is: Must warnings required by Miranda v Arizona, 384 U.S. 436, be given only to suspects who have been arrested or physically taken into custody, or are they applicable to all government interrogations made in course of official investigations that seek to elicit information that can be used in criminal prosecution?

Miranda v Arizona, 384 U.S. 436. The prosecution may not use statements, whether exculpatory or inculpatory, stemming fro questioning initiated by law enforcement officers after a person has bee taken into custody or otherwise deprived of his freedom of action in any significant way, unless it demonstrates the use of procedural safe-guards effective to secure the fifth amendement privilege against self-incrimination.

In the absence of other effective measures the following procedures to safeguard the Fifth Amendment privilege must be observed: The person in custody must, prior to interrogation, be clearly informed that he has the right to remain silent and that anything he says will be used against him in court; he must be clearly informed that he has the right to consult with a lawyer and to have the lawyer with him during interrogation and that, if he is indigent, a lawyer will be appointed to represent him.

Where an interrogation is conducted without the presence o an attorney and a statement is taken, a heavy burden rests on the gover ment to demonstrate that the defendant knowingly and intelligently waived his right to counsel.

A statement was made in Carnley v Cochran, 369 U.S. 506, 516, (1962) which is applicable here:

"Presuming waiver from a silent record is impermissible. The record must show, or there must be an allegation and evidence which shows that an accused was offered counsel but intelligently and understandingly rejected the offer. Anything less is not waiver."

J. THE TOTALITY OF THE ERRORS, INCLUDING PUBLICITY, CHANGE OF VENUE, MISJOINDER, INADEQUACY OF COUNSEL, VARIANCE, IF INSUFFICIENT STANDING ALONE, WHEN CONSIDERED AS A WHOLE DENIED PETER C. UNGER DUE PROCESS OF LAW AND THE CONVICTION SHOULD BE REVERSED.

Trial of this action took place in Portland, Oregon, a city that Unger had never been in, and over 1,500 miles from his home in San Diego, California. A great deal of publicity was generated in the foreclosure of the Hollywood Towne House, a Federal Housing Administration sponsored multiple story apartment project. This publicity went on for about a year prior to the trial. The trial was also widely publicized. The court did not poll the jurors individually as to whether or not they had read the publicity concerning the trial. The fact that a great deal of publicity was in evidence prior to the trial and would continue through the trial, strongly supported the appeal to change the trial venue, which the court failed to do.

The joinder of Unger with the other defendants, who were charged with 16 other counts, inevitably led to a great deal of confusion and prejudice in the minds of the jurors.

The defendant's court appointed attorney was almost totally ineffective. The variance between the pleading and proof was highly material. The admissions made by Unger, were made without adequate representation.

The overall effect of the entire proceedings when weighed as a whole is that Unger was denied due process of law in the conduct of the trial.

## VI CONCLUSION

The conviction of Peter C. Unger should be reversed under each of the arguments presented. Alternatively a new trial should be ordered.

Respectfully submitted,

Joseph E. O'Connor

## CERTIFICATION

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19, and 39 of the United States Court of Appeals for the Ninth Circuit, and that in my opinion the foregoing brief is in full compliance with those rules.

Joseph E. O'Connor

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PETER C. UNGER